

Panama as a Major Global Center of Money Laundering, with Special Link to the Colombian Drug Trade

The U.S. State Department's Bureau of International Narcotics and Law Enforcement Affairs lists Panama as a country of primary concern (its most severe designation) for drug-related money laundering. In the Bureau's 2009 International Narcotics Control Strategy Report, they write:

“By virtue of its geographic position and well-developed maritime and transportation infrastructure, Panama is a major logistics control and trans-shipment country for illegal drugs to the United States and Europe. Major Colombian and Mexican drug cartels as well as Colombian illegal armed groups use Panama for drug trafficking and money laundering purposes...

“The majority of money laundering activity in Panama is narcotics-related or the result of transshipment or smuggled, pirated, and counterfeit goods through Panama's major free trade zone, the Colon Free zone (CFZ). The funds generated from illegal activity are susceptible to being laundered through a wide variety of methods, including the Panamanian banking system, Panamanian casinos, bulk cash shipments, pre-paid telephone cards, debit cards, insurance companies, real estate projects and agents, and merchandise... Panama is an offshore financial center that includes offshore banks and various forms of shell companies that have been used by a wide range of criminal groups globally for money laundering.”ⁱ

The Drug Enforcement Agency of the Department of Justice has profiled Panama year in and out as a financial hub in terror and drug activities. “Since 2002, [drug trafficking organizations] and peso brokers have bulk-smuggled drug proceeds across the Southwest Border into Mexico for placement in Mexican financial institutions (banks, *casas de cambio*, and *centros cambiarios*) to facilitate the [Black Market Peso Exchange] system. The illicit proceeds are used for international wire remittances to countries such as China, Panama, Taiwan, and the United States to purchase goods that are later sold on the black market in Colombia.”ⁱⁱ

In October 2008, the Los Angeles Times reported on a Hezbollah-linked money laundering and drug-trafficking scheme with significant connections to Panama's institutions of international commerce.

The International Monetary Fund echoed these findings in its assessment of Panama:

“Money laundering has moved towards other parts of the economy in order for launderers to avoid the developed capacity of banks to detect the introduction of illicit capital. The geographic location of Panama makes it an attractive transit area for drugs and related money laundering... An area of great concern involves the role that the Free Zone of Colón (ZLC), the second largest free-trade zone in the world, can play as the originating or transshipment point for goods purchased with proceeds of narcotics trafficking, including through the Black Market Peso Exchange. The smuggling of currency, drugs, and prohibited chemical materials, the introduction and transshipment of counterfeit

merchandise, and several forms of customs fraud also generate criminal proceeds that expose the system to money laundering. Officials advised that the Panamanian jungle border with Colombia is occasionally penetrated by the illegal armed groups”ⁱⁱⁱ.

These links are not only to drug traffickers, but extend to terrorism. The *Los Angeles Times* published a report in October 2008 describing a Hezbollah-linked drug-trafficking and money-laundering scheme with significant connections to Panama’s institutions of international commerce. According to that report, “Hong Kong and the Panama free-trade zone served as centers for a scheme whereby drug cash from the U.S. was funneled to firms that use it to buy goods, which are shipped to Colombia and sold to be turned back into cash.”^{iv}

Panama’s dealings with the Financial Action Task Force on Money Laundering (FATF), a G-7-established body, mirror the obstructive pattern displayed regarding U.S. and international tax authorities. In 2000, Panama was listed as uncooperative in the fight against money laundering by the G7 Task Force. But a year later, the country was able to be removed from the blacklist for agreeing *on paper* to FATF recommendations, even though money laundering continues to be a major problem *in practice*, as the U.S. government has amply documented. In the words of one offshore lawyer:

“Only three times has FATF implemented counter measures to countries and they have all been removed. ... Panama hired a lawyer who is a genius to write their anti-money laundering laws. He fought vigorously to show they were up to standards and got Panama removed from the blacklist a few years ago while leaving Panama intact as an asset protection tax haven and offshore jurisdiction. Panama still has anonymous bearer share corporations and anonymous foundations. The man was simply brilliant.”^v

ⁱ Bureau of International Narcotics and Law Enforcement Affairs, “International Narcotics Control Report,” February 2009. Available at: <http://www.state.gov/p/inl/rls/nrcrpt/>. Accessed March 5, 2009.

ⁱⁱ DEA National Drug Threat Assessment 2009, <http://www.usdoj.gov/ndic/pubs31/31379/finance.htm>

ⁱⁱⁱ International Monetary Fund Legal Department, “Financial Sector Assessment Program, Republic of Panama, Detailed Assessment of Anti-Money Laundering and Combating the Financing of Terrorism,” September 2006, at 6. *See* <http://www.cfatf.org/profiles/media/PANAMA%20AMLCFT%20Detailed%20Assessment%20Report.pdf>.

^{iv} Chris Kraul and Sebastian Rotella, “Drug Probe finds Hezbollah Link,” *L.A. Times*, Oct. 22, 2008.

^v http://www.panamalaw.org/financial_action_task_force.html.