



Colombia faces \$17bn laundry bill: Smuggling, drug trafficking and their profits are warping an entire economy

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Rotting wooden planks heave as dozens of barefoot Wayuu people carry washing machines, fans and stereos on their backs from the hull of a cargo ship docked on the tip of northern Colombia. Throughout the night, they unload thousands of boxes piled 30ft high, and haul them down the battered ramp to waiting trucks. By torchlight, a customs official at the makeshift wharf at Puerto Nuevo on the La Guajira peninsula is checking the contents against documents supplied by the ship.

Contraband smuggled into Colombia is part of multibillion-dollar money laundering operations that damage legitimate businesses, undermining Colombia's effort to reinvent itself as a thriving economy after decades of political and drugs-related violence.

In complicated schemes, Colombian traffickers receive drug money from overseas dealers in the form of goods, often shipped along with legitimate merchandise. Once the goods are sold and a sales receipt given, the drug money is clean.

The amount of money laundered from the trafficking of drugs, arms and human beings in Colombia is estimated by experts to be as much as \$17bn (£11bn) a year – more than 5 per cent of the economy's total value and more than total foreign direct investment last year. Much of the merchandise unloaded – the bulk of it legitimate – will make its way to the desert town of Maicao, a Wild West type of place that sells cheap designer perfumes and whiskey at half the retail price. "That goods are sold at lower prices than they are produced in the factory says it all," said the head of the national tax agency, Juan Ricardo Ortega.

Last year, as much as \$128m (£84m) worth of contraband was seized by authorities, less than 10 per cent of the amount estimated to come into Colombia. "It's an impossible task," said Luis Carlos Canas, head of the tax office in northern Maicao, as he inspected ingots of aluminium on an 18-wheeler lorry crossing the border from Venezuela. "We just don't have the human resources to check everything."

Exports also are part of the laundering business. Fake paperwork is created for overseas sales that do not exist. Once the paperwork is filed at the customs office, cash from international drug deals can enter without raising suspicion. Colombia's official annual gold exports are reported to be as much as 70 tons, although the industry produces only 15 tons. While there is a considerable amount of artisanal gold that could account for some of the extra, Mr Ortega suspects the bulk is

fictitious sales.

So while Colombia continues to transform its image from a violence-plagued nation to an investment magnet with booming oil and mining industries, the economy is skewed by the money laundering of traffickers' cocaine sales abroad. Colombia has for decades struggled to reduce crime linked to the drug trade, waging a US-backed war against Marxist rebels, right-wing paramilitary groups and cocaine cartels. But crime gangs have become more wily in duping authorities. Back in the days of Colombia's best-known drug lord, Pablo Escobar, in the 1980s, so much laundered cash simply came in by plane from the United States that dealers buried it around their homes. Now things are far more sophisticated.

There are three main ways the gangs clean their money: smuggling undeclared physical cash across the border; through the financial system; and via contraband.

It is not just the proceeds from drug trafficking – about \$8.8bn (£5.7bn) a year – that gets laundered. Money earned from corruption, gun running, prostitution and illegal gold mining also needs to be cleaned. Once it makes it into Colombia's \$330bn (£217bn) economy, it can inflate economic growth numbers by several points. And a large range of official data from inflation to real estate, retail, exports, imports and agricultural output may be different than reported due to fake or overstated sales from laundering.

The problem for ordinary Colombians, Mr Ortega says, is that laundered goods are mostly sold at below-market prices, which elbows out competitors.

Conversely, it can create price bubbles in certain sectors when criminals pay excessive amounts for land or property, or bill extra through restaurants and shops.

Cattle ranching, for example, is a common financing vehicle along with drugs for left-wing rebels of the Revolutionary Armed Forces of Colombia, known as Farc, as well as for drug cartels. They often pay above value for cattle farms and that in turn pushes up prices for neighbouring property. Then they liquidate assets, the cattle, to receive quick cash, cutting the price of livestock in the area.

Farmers are intimidated into selling their land and offered cash sums they can't refuse, according to a cattle rancher with land in Meta who requested anonymity for security reasons. "It's hard to refuse the drug dealers," the rancher said. "And we also face herds of cattle coming in illegally from Venezuela as contraband that slashes the price of the beef." The government says the Farc is among the biggest owners of cattle – assets that are easy to turn into cash to buy weapons or food and clothing for their 8,000-strong fighting force.

Colombia's financial system, surprisingly, is among the most rigid and successful in protecting against money launderers. Red flags go up with any unusual movement of cash. Banking clients complain about the charges levied each month and the mountain of paperwork needed to open an account, but Maria Mercedes Cuellar, head of the Asobancaria banking union, says that is what keeps the system safe. "Colombia has more controls in its system than most places in the world, even more than in the US," she said.

While detecting smuggled goods has proved tough, authorities have turned to accountants to catch the smugglers, just as US authorities did with the legendary gangster Al Capone in the 1930s. "If we can't pursue them for contraband or laundering, we'll pursue them for tax evasion," Claudia Rincon, head of the tax office's legal department, said. One of her agents was assassinated just weeks ago in connection with her work as a tax investigator.

The attorney general's office says that as the government gets tougher on launderers, the cases are piling up and the judiciary needs more personnel to take them to trial.

The lowly smugglers who do the leg work certainly do not see much of the profit, but they say there are few other ways to make a living. "How else can we feed our families?" Juancho said after being pulled from his car by police on a highway in La Guajira province. The police

confiscated plastic jerry cans of fuel, part of a multimillion-dollar petrol-running business that thrives along the porous border with Venezuela.

Cheap fuel, at 2 cents a gallon, is smuggled over the border from Venezuela in cars outfitted with fake tanks, hollowed-out seats and double-panelled doors, and sold at \$5 (£3.30) at lucrative pumping stations in Colombia. As Juancho was being questioned by police outside the car, his partner sped off in their red souped-up Renault 18, screeching over spiked barricades as police trained their rifles at it. Juancho was later released. He says he earns just \$13 for risking the four-hour race south with the fuel but he has no intention of giving up. "We'll be back tomorrow," he said. "They won't stop us."