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THE WHITE HOUSE

WASHINGTON

August 1, 1984

MEMORANDUM FOR GREGORY JONES
LEGISLATIVE ATTORNEY
OFFICE OF MANAGEMENT AND BUDGET

FROM: JOHN G. ROBERTS 
ASSOCIATE COUNSEL TO THE PRESIDENT

SUBJECT: Statement of Norman Carlson Concerning
H.R. 3362, the Prison Industries Improve-
ment Act of 1983 and H.R. 3684, the Federal
Correctional Education Assistance Act

Counsel's Office has reviewed the above-referenced testimony, and finds no objection to it from a legal perspective. We would note, however, that the first full sentence on page 2 -- "This enforced idleness serves to further exacerbate the ever present tensions and frustrations that are always present in prisons" -- contains a rather glaring redundancy.

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Name of Correspondent: Greg Jones

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Subject: Statement of Norman Carlson concerning H.R. 3362, the Prison Industries Improvement Act of 1983 and H.R. 3684, the Federal Correctional Education Assistance Act

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DRAFT

STATEMENT

OF

NORMAN A. CARLSON

DIRECTOR

FEDERAL BUREAU OF PRISONS

DEPARTMENT OF JUSTICE

BEFORE THE

HOUSE JUDICIARY SUB-COMMITTEE ON

COURTS

CIVIL LIBERTIES AND THE
ADMINISTRATION OF JUSTICE

REGARDING

THE PRISON INDUSTRIES IMPROVEMENT ACT
OF 1983 (H.R. 3362)

AND

THE FEDERAL CORRECTIONAL EDUCATION ASSISTANCE ACT
(H.R. 3684)

WASHINGTON, D. C.

AUGUST 2, 1984

MR. CHAIRMAN, MEMBERS OF THE COMMITTEE -

I WELCOME THE OPPORTUNITY TO APPEAR TODAY IN ORDER TO DISCUSS TWO BILLS OF INTEREST TO THE FIELD OF CORRECTIONS: THE PRISON INDUSTRIES IMPROVEMENT ACT OF 1983 (H.R. 3362) AND THE FEDERAL CORRECTIONS EDUCATION ASSISTANCE ACT (H.R. 3684).

WITHOUT QUESTION, MR. CHAIRMAN, THERE ARE SIGNIFICANT PROBLEMS IN VIRTUALLY EVERY PRISON IN THIS COUNTRY. MOST OF THOSE PROBLEMS ARE DIRECTLY ATTRIBUTABLE TO THE RAPID INCREASE IN THE NUMBER OF INMATES CONFINED IN RECENT YEARS AND THE RESULTANT OVERCROWDING AND IDLENESS.

IN A RECENT STATEMENT, THE BUREAU OF JUSTICE STATISTICS REPORTED THAT STATE AND FEDERAL PRISONS HOUSED A TOTAL OF 438,830 INMATES AT THE END OF 1983. THIS FIGURE REPRESENTS NEARLY A DOUBLING OF THE NUMBER OF INDIVIDUALS INCARCERATED JUST TEN YEARS EARLIER.

UNFORTUNATELY, A LARGE NUMBER OF PRISON INMATES REMAIN IDLE TODAY DUE TO A LACK OF MEANINGFUL EMPLOYMENT OPPORTUNITIES. WHILE

CORRECTIONAL ADMINISTRATORS ATTEMPT TO FIND WAYS OF CONSTRUCTIVELY OCCUPYING OFFENDERS, OVERCROWDING SIGNIFICANTLY REDUCES THE OPPORTUNITIES AVAILABLE TO THEM. THIS ENFORCED IDLENESS SERVES TO FURTHER EXACERBATE THE EVER PRESENT TENSIONS AND FRUSTRATIONS THAT ARE ALWAYS PRESENT IN PRISONS.

WITHOUT VIABLE WORK PROGRAMS, THE FEDERAL BUREAU OF PRISONS WOULD QUICKLY BECOME UNMANAGEABLE. ALL INMATES IN FEDERAL INSTITUTIONS ABLE TO WORK ARE REQUIRED TO DO SO. THE BUREAU OF PRISONS HAS A TOTAL INMATE POPULATION OF 32,200, AN ALL-TIME HIGH. OF THIS POPULATION, 8,700 ARE EMPLOYED BY FEDERAL PRISON INDUSTRIES, THE LARGEST NUMBER IN THE HISTORY OF THE CORPORATION. THIS HAS ALLOWED US TO AVOID "WAREHOUSING" AND TO LESSEN THE POTENTIAL FOR VIOLENCE, CONDITIONS WHICH UNFORTUNATELY EXIST IN A NUMBER OF CORRECTIONS SYSTEMS.

AS YOU KNOW, CHIEF JUSTICE BURGER IS A FORCEFUL PROPONENT FOR THE DEVELOPMENT AND ENHANCEMENT OF PRISON INDUSTRIES. HIS "PRISON-

FACTORY" CONCEPT CALLS FOR PUTTING MORE INMATES TO WORK AND HIS ADVOCACY HAS GENERATED NATIONWIDE INTEREST.

THE ENABLING LEGISLATION WHICH ESTABLISHED FEDERAL PRISON INDUSTRIES IN 1934 HAS PERMITTED IT TO GROW TO MEET THE CRITICAL EMPLOYMENT NEEDS OF AN EXPANDING PRISON INMATE POPULATION. PARTICIPATION IN INDUSTRIES PROGRAMS PROVIDES MEANINGFUL WORK OPPORTUNITIES.

FEDERAL PRISON INDUSTRIES IS SELF SUSTAINING AND ITS EARNINGS ASSIST IN SUPPORTING THE MISSION OF THE BUREAU OF PRISONS. SALES THIS YEAR ARE EXPECTED TO REACH \$200 MILLION AND WE PROJECT APPROXIMATELY \$30 MILLION IN EARNINGS.

AT THIS POINT IN TIME, AGENCIES OF THE FEDERAL GOVERNMENT PROVIDE US WITH SUFFICIENT BUSINESS TO MEET OUR INMATE EMPLOYMENT REQUIREMENTS, AND FOR THE FORSEEABLE FUTURE WE DO NOT SEE THE NEED FOR TURNING TO THE PRIVATE SECTOR FOR ADDITIONAL BUSINESS.

UNFORTUNATELY, MOST STATE CORRECTIONAL SYSTEMS HAVE NEITHER THE FINANCIAL RESOURCES NOR THE EXTENSIVE DIVERSIFIED MARKET OF FEDERAL PRISON INDUSTRIES. THE EXPANSION AND IMPROVEMENT OF PRISON INDUSTRIES THROUGHOUT THE NATION'S CORRECTIONAL SYSTEMS WOULD BE AIDED BY LEGISLATION THAT ADDRESSES THESE PROBLEMS.

UNDER THE PRISON INDUSTRIES ENHANCEMENT ACT ENACTED DURING 1979, THE OFFICE OF JUSTICE ASSISTANCE, RESEARCH AND STATISTICS HAS RESPONSIBILITY FOR MONITORING SEVEN PILOT PROJECTS WHICH ARE EXEMPT FROM THE PROHIBITION AGAINST INTERSTATE TRANSPORTATION OF PRISON MADE GOODS. THESE PROJECTS ATTEMPT TO ADDRESS THE SAME ISSUES OUTLINED IN THE BILL BEFORE THIS COMMITTEE. THE COMPREHENSIVE CRIME CONTROL ACT, (S. 1762) WHICH IS CURRENTLY PENDING IN CONGRESS, WOULD EXPAND THIS PROGRAM TO 20 PROJECTS. THE PROPOSED LEGISLATION WOULD PROVIDE RELIEF TO STATES SEEKING TO EXPAND THEIR MARKETS.

THE CONCEPT OF THE PRISON INDUSTRIES IMPROVEMENT ACT (H.R. 3362) IS ONE THAT WE ENDORSE. WE WANT TO COMMEND CONGRESSMAN McCOLLUM FOR RECOGNIZING THE IMPORTANCE OF PROVIDING MEANINGFUL WORK PROGRAMS FOR INMATES. THERE ARE A NUMBER OF ISSUES, HOWEVER, SUCH AS EFFECT ON SMALL BUSINESS, ORGANIZED LABOR AND THE IMPACT OF PAYING THE PREVAILING WAGE THAT REQUIRE FURTHER STUDY. WE WOULD BE PLEASED TO WORK WITH THE CONGRESS IN EXPLORING THESE ISSUES FURTHER.

WITH REGARD TO THE FEDERAL CORRECTIONAL EDUCATION ASSISTANCE ACT, WE BELIEVE THAT SUCCESSFUL PRISON INDUSTRIES CANNOT EXIST UNLESS EDUCATION OPPORTUNITIES ARE SIMULTANEOUSLY ADDRESSED. WE WANT TO REITERATE OUR SUPPORT OF THE CHIEF JUSTICE'S VIEWS ON THE VALUE OF EDUCATION AND VOCATIONAL TRAINING PROGRAMS IN CORRECTIONAL INSTITUTIONS. THESE PROGRAMS ARE VITAL IN IMPROVING THE POTENTIAL FOR THE SUCCESSFUL RETURN OF PRISONERS TO THE COMMUNITY.

THE PROPOSED LEGISLATION (H.R. 3684) WOULD AUTHORIZE THE SECRETARY OF EDUCATION TO PROVIDE FINANCIAL ASSISTANCE TO STATES FOR USE IN EXPANDING EDUCATIONAL PROGRAMS IN JUVENILE AND ADULT CORRECTIONAL INSTITUTIONS. THIS LEGISLATION DOES NOT AFFECT THE DEPARTMENT OF JUSTICE NOR DOES IT DIRECTLY INVOLVE THE FEDERAL BUREAU OF PRISONS. WE DO, HOWEVER, AGREE WITH THE BASIC CONCEPT OF THE BILL, WHICH IS TO STRENGTHEN CORRECTIONAL EDUCATIONAL AND VOCATIONAL TRAINING PROGRAMS NATIONWIDE. WE WOULD DEFER TO THE SECRETARY OF EDUCATION FOR FURTHER COMMENTS ON THE SPECIFICS OF THE PROPOSAL.

THIS CONCLUDES MY FORMAL STATEMENT, MR. CHAIRMAN. WE WOULD BE PLEASED TO ANSWER ANY QUESTIONS YOU OR YOUR COLLEAGUES MAY HAVE.

THE WHITE HOUSE

WASHINGTON

August 6, 1984

MEMORANDUM FOR GREGORY JONES
LEGISLATIVE ATTORNEY
OFFICE OF MANAGEMENT AND BUDGET

FROM: JOHN G. ROBERTS *JGR*
ASSOCIATE COUNSEL TO THE PRESIDENT

SUBJECT: Justice Testimony Concerning Organized
Crime and the Laundering of Southeast
Asian Heroin Money

Counsel's Office has reviewed the above-referenced testimony, and finds no objection to it from a legal perspective. I assume that the appropriate law enforcement authorities have reviewed the financial flow chart appended to the draft testimony, and are satisfied that disclosure of the information on the chart will neither compromise pending investigations or litigation nor defame innocent parties.

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Subject: Justice testimony concerning organized crime and the laundering of Southeast Asian Heroin Money

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U.S. Department of Justice

Drug Enforcement Administration

DRAFT

Washington, D.C. 20537

TESTIMONY

BY

SPECIAL AGENT RICHARD J. MANGAN

FINANCIAL AND SPECIAL INTELLIGENCE SECTION

DRUG ENFORCEMENT ADMINISTRATION

BEFORE THE

PRESIDENT'S COMMISSION ON ORGANIZED CRIME

WEEK OF SEPTEMBER 24TH (TENTATIVE)

SAN FRANCISCO

MR. CHAIRMAN AND OTHER MEMBERS OF THE COMMISSION, I AM PLEASED TO HAVE THE OPPORTUNITY TO APPEAR HERE TODAY AND PRESENT TESTIMONY CONCERNING THE LAUNDERING OF SOUTHEAST ASIAN HEROIN MONEY.

IN INCREASINGLY LARGE NUMBERS, BOTH DOMESTIC AS WELL AS INTERNATIONAL DRUG INVESTIGATIONS ARE CENTERING AROUND THE TREMENDOUS SUMS OF MONEY GENERATED BY THIS ILLICIT TRADE. THE TERMS "DRUG INVESTIGATION" AND "FINANCIAL INVESTIGATION" HAVE NEARLY BECOME SYNONYMOUS, AS AGENTS ATTEMPT TO TRACE THE MOVEMENT OF BILLIONS OF DOLLARS THROUGH THE MAZE OF INTERNATIONAL BANKS IN AN EFFORT TO IDENTIFY AND REMOVE PROFITS. DRUG TRAFFICKERS ARE RELYING MORE AND MORE ON THE WORLD BANKING SYSTEM TO ASSIST THEM IN THE MOVEMENT AND "LAUNDERING" OF DRUG MONEY.

IN EARLY 1983, THE DEA OFFICE OF INTELLIGENCE INITIATED A PROJECT ENTITLED OPERATION CASHFLOW DESIGNED TO STUDY THE VARIOUS PROBLEMS ASSOCIATED WITH THE INTERNATIONAL FLOW OF DRUG-RELATED CURRENCY AND TO MAKE RECOMMENDATIONS ON THE BEST APPROACHES TO SOLVE THEM. ALL DEA FOREIGN OFFICES WERE REQUESTED TO CONDUCT SURVEYS, TO INCLUDE THE FOLLOWING SEVEN SPECIFIC AREAS OF INTEREST:

1. LOCATION AND DIRECTION OF DRUG CURRENCY FLOW--COUNTRY TO COUNTRY.

2. METHOD OF MOVEMENT, (E.G., WIRE TRANSFER; SMUGGLING OF HARD CURRENCY OR NEGOTIABLE INSTRUMENTS; CASHIERS CHECKS).
3. FINANCIAL INSTITUTIONS UTILIZED.
4. AMOUNTS OF CURRENCY INVOLVED AND FREQUENCY OF MOVEMENT.
5. TYPE OF DRUG GENERATING THE CURRENCY FLOW.
6. FINAL "RESTING PLACE" FOR DRUG PROFITS, (E.G., IS MONEY HELD AND INVESTED IN THE FOREIGN COUNTRY OR RETURNED TO THE UNITED STATES FOR INVESTMENT).
7. IF APPLICABLE, THE LAUNDERING METHODS USED TO RETURN PROFITS TO THE UNITED STATES FOR INVESTMENT.

A REVIEW OF THE MONEY GENERATED BY THE SOUTHEAST ASIAN HEROIN TRADE, WAS CONDUCTED, AS WAS AN EXAMINATION OF OTHER DEA HEROIN AND CANNABIS INVESTIGATIONS IN THE AREA. INTERVIEWS WERE CONDUCTED WITH DEA PERSONNEL IN BANGKOK, HONG KONG, AND SINGAPORE, OTHER AMERICAN EMBASSY AND CONSULAR PERSONNEL, HOST COUNTRY POLICE AND CUSTOMS OFFICIALS AND MANAGING DIRECTORS FROM SEVERAL MAJOR BANKS.

TO FULLY COMPREHEND THE PROCESS INVOLVED IN THE MOVEMENT OF DRUG MONEY AND THE REASONS WHY CERTAIN HAVEN COUNTRIES ARE SELECTED TO FACILITATE THAT MOVEMENT, ONE MUST FIRST ACQUIRE A GENERAL UNDERSTANDING OF THE BANKING SYSTEM IN THOSE AREAS. IN SOUTHEAST ASIA, HONG KONG AND SINGAPORE ARE THE UNDISPUTED LEADERS IN INTERNATIONAL BANKING.

ON A RELATIVELY SMALL LAND MASS AREA, HONG KONG HAS OVER 128 LICENSED BANKS REPRESENTING NEARLY EVERY MAJOR COUNTRY IN THE WORLD. MANY OF THESE BANKS HAVE NUMEROUS BRANCHES AS WELL, (E.G., HONG KONG AND SHANGHI BANKING CORPORATION, WITH 278 OFFICES AND THE CHARTERED BANK, WITH 104 OFFICES). IN ADDITION, A LARGE NUMBER OF QUASI-BANKS KNOWN AS "DEPOSIT-TAKING COMPANIES" HAVE BEEN FORMED. THESE INSTITUTIONS, WHICH ARE SIMILAR IN SOME ASPECTS TO THE U.S. SAVINGS AND LOANS, ARE REGISTERED BUT NOT LICENSED, HAVE NO CHECKING ACCOUNTS AND HAVE DIFFERENT MINIMUM ASSET REQUIREMENTS THAN DO BANKS. THEY ARE PERMITTED TO MAKE LOANS, PAY A HIGHER RATE OF INTEREST THAN BANKS AND HAVE WIRE TRANSFER AUTHORITY. DEPOSIT-TAKING COMPANIES ARE SUBJECT TO THE SAME AUDIT AND REPORTING REQUIREMENTS AS ARE BANKS AND IN HONG KONG CURRENTLY NUMBER ABOUT 350.

BECAUSE THERE ARE NO CURRENCY EXCHANGE CONTROLS IN HONG KONG AND NO CENTRAL BANK, TRACING FUNDS ENTERING OR LEAVING THE TERRITORY IS VIRTUALLY IMPOSSIBLE. AND WHILE HONG KONG LAW DOES NOT PERMIT LAW ENFORCEMENT "FISHING EXPEDITIONS" REGARDING THE CRIMINAL USE OF BANK ACCOUNTS, ONCE A PARTICULAR ACCOUNT HAS BEEN IDENTIFIED, THE LAW PERMITS POLICE AUTHORITIES TO OBTAIN A SEARCH WARRANT FOR AN EXAMINATION OF THAT ACCOUNT. NEARLY ALL SUCH ACCOUNT EXAMINATIONS ARE CONDUCTED BY THE COMMERCIAL CRIMES BUREAU OF THE ROYAL HONG KONG POLICE AND INVOLVE VARIOUS FRAUD INVESTIGATIONS.

OBVIOUSLY, A BANKING INDUSTRY THE SIZE OF THAT IN HONG KONG INHERENTLY DEALS IN TREMENDOUS SUMS OF MONEY IN EVERY IMAGINABLE LICIT AND ILLICIT BUSINESS. BANKING OFFICIALS INTERVIEWED AGREED THAT HUGH AMOUNTS OF CASH GENERATED BY THE BLACK MARKET IN CONSUMER GOODS FLOW INTO HONG KONG FROM INDONESIA AND FREQUENTLY ON TO SINGAPORE. THERE IS CONSIDERABLE LESS AGREEMENT ON WHAT PERCENTAGE OF THE TOTAL VOLUME OF CURRENCY FLOWING THROUGH THE SYSTEM IS GENERATED FROM THE DRUG TRADE. THE VAST MAJORITY OF ALL FUNDS HANDLED BY THE HONG KONG BANKS IS IN U.S. DOLLARS, FOLLOWED (A DISTANT SECOND) BY JAPANESE YEN, POUND STERLING AND DEUTSCH MARKS.

THE HONG KONG FINANCIAL INDUSTRY IS GREATLY ENHANCED IN ITS GROWTH BY A VAST CADRE OF ATTORNEYS SPECIALIZING IN INTERNATIONAL BUSINESS AND FINANCE. THIS TYPE OF LEGAL EXPERTISE IS NECESSARY FOR TRAFFICKERS WHO DESIRE TO ESTABLISH FOREIGN SHELL COMPANIES WITH APPROPRIATE CORPORATE BANK ACCOUNTS, PURCHASE PROPERTY AND VESSELS AND MOVE MONEY, ALL WITH THE ANONYMITY PROVIDED BY LAWYERS WHO ADMINISTER TRUST ACCOUNTS AND HANDLE BUSINESS DETAILS. A LACK OF SIMILAR LEGAL EXPERTISE IN SINGAPORE IS FREQUENTLY CITED AS BEING THE MAIN REASON FOR IT REMAINING IN SECOND PLACE BEHIND HONG KONG AS AN INTERNATIONAL FINANCIAL CENTER. ONE SIGNIFICANT FACTOR WHICH MAY HAVE FUTURE RAMIFICATIONS ON HONG KONG'S PREEMINENT POSITION IS THAT ITS

STATUS AS A BRITISH CROWN COLONY EXPIRES IN 1997 AND AT THAT TIME HONG KONG WILL REVERT TO CONTROL BY THE PEOPLE'S REPUBLIC OF CHINA (PRC). WHAT, EXACTLY, WILL OCCUR WHEN HONG KONG'S LEASE EXPIRES IS UNKNOWN. THE PRC IS STUDYING THE SITUATION AND CURRENTLY ADMITS TO RECEIVING AT LEAST 30 PERCENT OF ITS HARD CURRENCY FROM HONG KONG. ANY MOVE BY THE PRC TO ALTER THE CURRENT STATE OF BUSINESS AFFAIRS IN THIS TERRITORY WOULD HAVE AN ADVERSE EFFECT ON CHINA ITSELF. SINGAPORE, OF COURSE, WOULD BE MORE THAN PLEASED TO HAVE THE HONG KONG FINANCIAL COMMUNITY FLEEING TO ITS SHORES. IN THE MEANTIME, HOWEVER, HONG KONG CONTINUES TO GROW AS A FINANCIAL CENTER, AIDED CONSIDERABLY BY ITS FAVORABLE TAX LAWS. THERE IS NO WITHHOLDING TAX ON INTEREST PAID, NO TAX ON PROFITS FROM OFFSHORE ACTIVITIES (SINGAPORE TAXES THEM AT TEN PERCENT) AND A NORMAL CORPORATE TAX RATE OF 16.5 PERCENT (SINGAPORE'S RATE IS 40 PERCENT).

THE REPUBLIC OF SINGAPORE MAY HAVE FEWER FOREIGN LAWYERS AND A LESS DESIRABLE TAX SITUATION THAN HONG KONG, BUT ITS 13 LOCAL AND 205 FOREIGN BANKS, COUPLED WITH ITS GEOGRAPHIC LOCATION AND POLITICAL STABILITY, MAKE IT ONE OF THE MAJOR FINANCIAL CENTERS IN THE WORLD. SOME BANKING OFFICIALS BELIEVE SINGAPORE EVENTUALLY WILL BECOME THE MAJOR FINANCIAL CENTER IN ASIA, SURPASSING HONG KONG'S POSITION. ITS ASIAN OFFSHORE CURRENCY MARKET AND FOREIGN EXCHANGE MARKET WERE DESIGNED TO PROVIDE CAPITAL TO DEVELOPING COUNTRIES IN THE

REGION BY MOVING FUNDS FROM SURPLUS FINANCIAL CENTERS IN EUROPE TO COUNTRIES LIKE KOREA, THAILAND, AND INDONESIA. BY THE END OF 1981, SINGAPORE'S OFFSHORE CURRENCY MARKET ACCOUNTED FOR APPROXIMATELY FIVE PERCENT OF THE WORLD'S OFFSHORE MARKET. UNLIKE HONG KONG, SINGAPORE DOES HAVE A CENTRAL BANK AUTHORITY. THE MONETARY AUTHORITY OF SINGAPORE IS THE BANKER AND FINANCIAL AGENT OF THE GOVERNMENT AND ESTABLISHES BOTH MONETARY AND EXCHANGE RATE POLICY. IT DOES NOT, HOWEVER, ISSUE CURRENCY AND IS NOT FORMALLY INDEPENDENT AS IS IN THE U.S. FEDERAL RESERVE. AS IS THE CASE IN HONG KONG, THE DOMINANT CURRENCY IN THE SINGAPORE BANKING SYSTEM IS THE U.S. DOLLAR, FOLLOWED BY THE JAPANESE YEN AND GERMAN DEUTSCH MARK. SINGAPORE HAS BANK SECRECY LAWS AND, LIKE HONG KONG, DOES NOT PERMIT POLICE "FISHING EXPEDITIONS." ACCOUNT INFORMATION IS AVAILABLE TO AUTHORITIES WHEN SPECIFIC INFORMATION REGARDING THE CRIMINAL INVOLVEMENT OF A BANK ACCOUNT IS KNOWN.

SINGAPORE'S GEOGRAPHIC LOCATION AND STATUS AS A MAJOR SEAPORT HAS MADE IT A POPULAR STAGING AREA FOR SMUGGLERS USING SEA ROUTES. THE PURCHASE OF LARGE OCEAN-GOING VESSELS AND EQUIPMENT, PLUS THE AVAILABILITY OF CARGOES TO SERVE AS A COVER, HAVE MADE THE USE OF SINGAPORE'S BANKING INDUSTRY AND THE ESTABLISHING OF "SHELL" COMPANIES VERY POPULAR WITH BOTH HEROIN AND CANNABIS TRAFFICKERS.

TWO MAJOR TYPES OF DRUGS CREATE SIGNIFICANT FLOWS OF CURRENCY IN SOUTHEAST ASIA: HEROIN AND CANNABIS. WHILE METHAMPHETAMINE IS OF SIGNIFICANCE IN JAPAN AND KOREA (UPWARDS OF 85% OF JAPAN'S METHAMPHETAMINE IS PURCHASED FROM CLANDESTINE LABORATORIES IN KOREA, CONTRIBUTING APPROXIMATELY 60% OF JAPANESE ORGANIZED CRIME INCOME), IT DOES NOT COMPARE IN TERMS OF TOTAL FUNDS GENERATED WORLDWIDE BY THE TWO OTHER SOUTHEAST ASIAN CONTENDERS. THE SOUTHEAST ASIAN UNDERGROUND BANKING SYSTEM EXISTS OUTSIDE THE COMMERCIAL BANKING INDUSTRY AND IS ESTIMATED TO BE RESPONSIBLE FOR THE TRANSFER OF A LION'S SHARE OF THE HEROIN MONEY. THAT SYSTEM IS KNOWN AS THE CHINESE UNDERGROUND BANKING SYSTEM AND OPERATES THROUGH GOLD SHOPS, TRADING COMPANIES AND MONEY CHANGERS, MANY OF WHICH ARE RUN IN VARIOUS COUNTRIES BY MEMBERS OF THE SAME CHINESE FAMILY. THE SYSTEM GREW OUT OF A COMBINATION OF HISTORICAL DISTRUST FOR BANKS, POLITICAL TURMOIL AND COMMUNIST TAKEOVERS IN MANY COUNTRIES WHERE THE CHINESE RESIDED AND WERE CONSTANTLY HARASSED. WITH A VAST MAJORITY OF THE SOUTHEAST ASIAN HEROIN TRADE CONTROLLED BY CHINESE ORGANIZATIONS, THIS UNDERGROUND BANKING SYSTEM, COUPLED WITH THE WEB OF COMMERCIAL CONTACTS IN A "MULTINATIONAL CAT'S CRADLE OF CHINESE BUSINESS CONNECTIONS, CREATES A NEARLY UNSOLVABLE PUZZLE." IN THEIR BUSINESS DEALINGS, THE CHINESE ARE EXTREMELY CLANNISH, WITH THE ONLY PROVEN UNIT OF BUSINESS BEING THE FAMILY. ONE HONG KONG BANK DIRECTOR DESCRIBED A PARTICULAR CHINESE OWNED BUSINESS WITH AFFILIATED COMPANIES

(FREQUENTLY INVOLVED IN UNRELATED COMMODITIES) IN THAILAND, MALAYSIA, INDONESIA, TAIWAN AND SINGAPORE. THE RECORDKEEPING PROCEDURES OF THIS UNDERGROUND BANKING SYSTEM ARE NEARLY NON-EXISTENT AND CODED MESSAGES, "CHITS" AND SIMPLE TELEPHONE CALLS ARE USED TO TRANSFER MONEY FROM ONE COUNTRY TO ANOTHER. ONE HONG KONG POLICE OFFICIAL STATED THAT HE ONCE SEIZED A PIECE OF PAPER WITH THE PICTURE OF AN ELEPHANT ON IT THAT REPRESENTED THE COLLECTION RECEIPT FOR THREE MILLION DOLLARS AT A HONG KONG GOLD SHOP. WIRE INTERCEPTS PLACED ON SOME OF THE MAJOR GOLD SHOPS AND TRADING COMPANIES BY BOTH THAI AND HONG KONG POLICE DOCUMENT LARGE TRANSFERS OF SUSPECTED DRUG MONEY. THESE WIRE INTERCEPTS ARE ONLY USED TO LOCATE AND IDENTIFY DRUG SHIPMENTS AND INFORMATION CONCERNING CURRENCY MOVEMENT IS DISCARDED.

THE SYSTEM HAS THE ABILITY TO TRANSFER FUNDS FROM ONE COUNTRY TO ANOTHER IN A MATTER OF HOURS, PROVIDE COMPLETE ANONYMITY FOR THE CUSTOMER, PROVIDE TOTAL SECURITY, CONVERT GOLD OR OTHER ITEMS INTO CURRENCY AND CONVERT ONE CURRENCY INTO THE CURRENCY OF THE CUSTOMER'S CHOICE. WHEN IT IS NECESSARY TO TRANSFER MONEY TO SOUTHEAST ASIA FROM EUROPE OR THE UNITED STATES (WHERE THE INFLUENCE OF CHINESE FAMILIES MAY BE OF LESSER SIGNIFICANCE) COMMERCIAL BANKS ARE FREQUENTLY INTEGRATED INTO THE SYSTEM.

THE 1982-83 OPIUM CROP ESTIMATE FOR THE GOLDEN TRIANGLE WAS APPROXIMATELY 650 METRIC TONS. WHILE A VAST MAJORITY OF

THIS PRODUCTION OCCURS IN BURMA (ESTIMATES ARE APPROXIMATELY 550 METRIC TONS), THE MAJORITY OF THE PROCEEDS FROM DISTRIBUTION ARE RETURNED TO THAILAND. PAYMENTS, USUALLY IN LOCAL CURRENCY IN BOTH THAILAND AND BURMA, ARE THEN MADE TO COVER COSTS SUCH AS GROWERS' COMMISSIONS, PURCHASE OF CHEMICALS FOR REFINERIES, TRANSPORTATION AND SECURITY, CHEMISTS' COMMISSIONS, SALARY OF REFINERY WORKERS, LOSSES DUE TO SEIZURES FROM POLICY/MILITARY OPERATIONS AND BRIBES TO VARIOUS OFFICIALS.

A RECENT SURVEY CONDUCTED BY THE DEA BANGKOK COUNTRY OFFICE DOCUMENTED THREE BASIC METHODS OF TRANSFERRING MONEY IN AND OUT OF THAILAND: 1) OVERVALUATION OF LETTERS OF CREDIT; 2) UNDERVALUATION OF LETTERS OF CREDIT; AND 3) THE TRADITIONAL CHINESE UNDERGROUND BANKING SYSTEM. THIS THIRD METHOD IS THE MOST COMMON SYSTEM OF MONEY TRANSFER USED BY HEROIN TRAFFICKERS AND EFFECTIVELY UTILIZES THE NUMEROUS GOLD SHOPS AND TRADING COMPANIES WHICH ABOUND IN BANGKOK.

THIS SYSTEM IS PARTICULARLY ACTIVE BETWEEN BURMA AND THAILAND WHERE THERE IS A REQUIREMENT FOR LOCAL CURRENCY (KYAT AND BAHT) FOR PAYMENT TO GROWERS AND SUPPLIERS. IT DIFFERS FROM THE SIMILAR SYSTEM INVOLVING THAILAND, HONG KONG, SINGAPORE AND MALAYSIA, WHERE MOST OF THE FUNDS ARE CONVERTED TO U.S. CURRENCY WHICH IS REFERRED TO BY TRAFFICKERS AS "PAPER GOLD." IN ADDITION TO MOVING NARCOTICS MONEY, THE SYSTEM IS RESPONSIBLE FOR THE MOVEMENT OF BLACK MARKET MONEY AND IS A MEANS OF ILLEGALLY TRANSFERRING CURRENCY OUT OF

THAILAND, (WHICH HAS LAWS RESTRICTING THE FLOW OF LOCAL CURRENCY OUT OF THE COUNTRY). A SOURCE FOR THE DEA BANGKOK COUNTRY OFFICE HAS STATED THAT A MAJOR THAI BANK MAY BE USING THIS UNDERGROUND SYSTEM AS A FRONT TO MOVE APPROXIMATELY 100 MILLION BAHT DAILY OUT OF THE COUNTRY (APPROXIMATELY 5 BAHT EQUALS U.S. \$1.00). ONE OF THE LARGEST MONEY MOVEMENT GROUPS KNOWN TO THAI LAW ENFORCEMENT OFFICIALS IS INVOLVED IN THE TRANSFER OF FUNDS BETWEEN SINGAPORE AND THAILAND. IN THIS PARTICULAR OPERATION, A CUSTOMER IS PRESENTED WITH A SINGAPORE DOLLAR BILL. THE CODE INVOLVES UTILIZING THE BILL'S SERIAL NUMBER AS THE INDICATOR OF THE SUM DUE THE CUSTOMER. UPON PRESENTATION OF THIS BILL IN BANGKOK, THE CUSTOMER IS PAID THE AMOUNT DUE. VERY LITTLE ACTUAL CURRENCY IS MOVED FROM ONE COUNTRY TO ANOTHER; ACCOUNTS ARE MAINTAINED IN EACH LOCATION AND BOOKS ARE PERIODICALLY BALANCED BY A FAIRLY COMPLICATED METHOD USING VARIOUS COMMODITIES WHICH HAVE BEEN MOVED BOTH LEGALLY AND ILLEGALLY.

INTERVIEWS CONDUCTED IN BANGKOK WITH THAI NATIONAL POLICE REFLECTED THAT SOME WEALTHY THAI CITIZENS ARE HEAVILY INVOLVED IN BOTH THE HEROIN TRAFFIC AND THE ILLEGAL MOVEMENT OF CURRENCY. THERE ARE NO ACCURATE ESTIMATES ON WHAT PERCENTAGE OF THE BLACK MARKET MONEY FLOW CONSISTS OF DRUG PROCEEDS.

ONE DEA BANGKOK COUNTRY OFFICE SOURCE INDICATED THAT THE TOTAL FLOW OF ILLEGAL BLACK MARKET MONEY OUT OF THAILAND WAS

IN THE VICINITY OF 10 BILLION U.S. DOLLARS AND REPRESENTED NEARLY 50 PERCENT OF ALL THAI INTERNATIONAL CURRENCY TRANSFERS.

BURMA:

BURMA CURRENTLY PRODUCES THE VAST MAJORITY OF THE GOLDEN TRIANGLE'S OPIUM CROP. HISTORICALLY, MOST LARGE-SCALE NARCOTICS EXPORTING WAS ACCOMPLISHED THROUGH THAILAND AND MALAYSIA. RECENTLY, HOWEVER, INFORMATION HAS BEEN DEVELOPED IN BURMA THAT A MAJOR TRAFFICKING SYNDICATE IS UTILIZING A SMUGGLING ROUTE DIRECTLY TO THE UNITED STATES VIA INDIA. THE REVERSAL OF THIS TRAFFICKING ROUTE IS THEN BEING USED TO TRANSFER MILLIONS OF U.S. DOLLARS BACK INTO RANGOON. ACCORDING TO REPORTS FROM BURMA, THE ORGANIZATION IS COMPOSED OF RELIGIOUS GROUPS, AS WELL AS LEGITIMATE BURMESE BUSINESSMEN. ONE GROUP IDENTIFIED HAD EXCHANGED OVER U.S. \$1,800,000 INTO KYAT AT A BLACK MARKET RATE OF 17 KYAT TO ONE U.S. DOLLAR. THE HEAD OF THIS GROUP ALLEGEDLY HAS A CHRISTIAN U.S. BASED RELIGIOUS GROUP AS A COVER, AND USES RELIGIOUS SEMINARS AND MEETINGS IN THE UNITED STATES AS A PREDICATE FOR HIS TRAVEL. TRIPS TO AND FROM THE UNITED STATES ARE FREQUENTLY VIA BOMBAY, INDIA.

HONG KONG:

HONG KONG EMERGES AS THE MAJOR CLEARING HOUSE FOR FINANCIAL ACTIVITY GENERATED BY HEROIN TRANSACTIONS IN SOUTHEAST ASIA. IN LATE 1979 AND EARLY 1980, DEA IN HONG KONG

BEGAN AN INVESTIGATION INTO AN ACCOUNT AT THE HONG KONG INDUSTRIAL AND COMMERCIAL BANK IN THE NAME OF WILLIAM CHAN SAK-YUEN. THE ACCOUNT WAS BEING USED BY HEROIN COURIERS SMUGGLING THE NARCOTICS FROM SOUTHEAST ASIA TO EUROPE, THROUGH SPAIN, FRANCE AND, FINALLY, HOLLAND. THE CHAN ACCOUNT WAS IN THE POSSESSION OF DISTRIBUTORS AS WELL AS COURIERS AND WAS USED AS A FINANCIAL CLEARING HOUSE (AS OPPOSED TO A FINAL REPOSITORY) FOR THE SOURCE OF SUPPLY. DUTCH AUTHORITIES OBSERVED AT THAT TIME THAT NO LARGE SUMS OF CASH WERE EVER FOUND IN CONJUNCTION WITH ARRESTS OF THESE INDIVIDUALS, AS HAD BEEN THE CASE IN PREVIOUS INVESTIGATIONS.

AS THE DIAGRAM OF THE CHAN ACCOUNT SHOWS, SUBSTANTIAL SUMS OF MONEY WERE PAID INTO AND OUT OF THE ACCOUNT FROM SWITZERLAND, HOLLAND, THAILAND, MALAYSIA, SINGAPORE, PAKISTAN, AUSTRALIA AND THE UNITED STATES. APPROXIMATELY H.K. \$12 MILLION HAD PASSED THROUGH THAT ONE ACCOUNT IN A TWO YEAR PERIOD. PAYMENTS WERE MADE TO VARIOUS INDIVIDUALS AS WELL AS TO TRADING COMPANIES, TRAVEL SERVICES, ELECTRICAL COMPANIES, RESTAURANTS AND GOLD SHOPS - NEARLY ALL REPRESENTATIVE OF THE CHINESE UNDERGROUND BANKING SYSTEM.

TWO OTHER BANK ACCOUNTS WERE UNCOVERED DURING THE COURSE OF THE HONG KONG INVESTIGATION WHICH WERE USED IN PENANG, MALAYSIA, TO TRANSFER MILLIONS OF DOLLARS INTO HONG KONG AND ON TO THAILAND. THE INVESTIGATION REVEALED THAT THE FUNDS NORMALLY REMAINED IN HONG KONG FOR ONLY ONE DAY

BEFORE THEY WERE WIRED TO BANGKOK. THE TWO BANKS (THE CHUNG KHIAW BANK LTD., PENANG AND THE OVERSEAS UNION BANK LTD., PENANG) WERE RESPONSIBLE FOR TRANSFERRING OVER U.S. \$5 MILLION IN LESS THAN ONE YEAR. DEPOSITORS LISTED IN THESE TRANSFERS USED FICTITIOUS NAMES AND ADDRESSES WHICH WERE LATER DETERMINED TO BE VACANT LOTS AND ABANDONED BUILDINGS IN PENANG. ALL DEPOSITS WERE IN CASH.

SINGAPORE:

IN JANUARY, 1981, A STATEMENT WAS TAKEN FROM A CONVICTED HEROIN TRAFFICKER IN SINGAPORE THAT PROVIDED FURTHER DETAILS ON THE USE OF THE "CHAN" ACCOUNT IN HONG KONG TO REMIT MONEY FROM AMSTERDAM TO BANGKOK. ADDITIONAL INFORMATION WAS UNCOVERED FROM A STATEMENT MADE TO SINGAPORE POLICE BY A HEROIN MONEY HANDLER WHO ACTED AS AN AGENT FOR THE BANGKOK EAST ASIA TRADING COMPANY. THIS INDIVIDUAL OPERATED A FIRM THAT WAS CHARTERED TO DEAL WITH IMPORTING AND EXPORTING COMMODITIES, BUT WAS ACTUALLY INVOLVED PRIMARILY IN FOREIGN EXCHANGE AND THE TRANSFER OF FUNDS OF MAJOR CHINESE HEROIN TRAFFICKERS IN SINGAPORE, MALAYSIA, LAOS, HONG KONG AND BANGKOK. THIS FIRM WOULD RECEIVE FROM 110,000 TO 150,000 SINGAPORE DOLLARS (1 U.S. DOLLAR EQUALS 2 SINGAPORE DOLLARS), SOMETIMES TWICE A WEEK. NO RECORDS WERE KEPT BY THE FIRM OF ANY OF THESE TRANSACTIONS NOR WERE RECEIPTS GIVEN TO THE SINGAPORE TRAFFICKERS WHO DEPOSITED THE PROCEEDS FROM THEIR DRUG

SALES. AS IS TYPICAL IN THE CHINESE UNDERGROUND BANKING SYSTEM, TRUST REPLACED RECORDKEEPING AND ALL "CLIENTS" OF THE FIRM WERE PERSONALLY INTRODUCED BY CONTACTS THE PROPRIETOR ALREADY KNEW IN THAILAND AND WEST MALAYSIA.

UNDERSTANDABLY, THE INTEREST THE UNITED STATES HAS IN THE SOUTHEAST ASIAN HEROIN MONEY FLOW IS DIRECTLY PROPORTIONAL TO THE AMOUNT OF HEROIN ENTERING THE U.S. FROM THAT AREA AND THE RESULTANT NUMBER OF INVESTIGATIONS GENERATED BY THAT FLOW. DURING THE FIRST QUARTER OF 1983, 29 SEIZURES OF SOUTHEAST ASIAN (SEA) HEROIN WERE MADE IN THE UNITED STATES TOTALING NEARLY 24 KILOGRAMS. THESE FIRST QUARTER FIGURES ARE EQUAL TO APPROXIMATELY ONE HALF THE TOTAL SEA HEROIN SEIZURES FOR ALL OF 1982 AND COULD WELL PREVIEW AN INCREASE IN SEA HEROIN TRAFFICKING IN THIS COUNTRY.

CURRENT ESTIMATES IN THE NARCOTICS INTELLIGENCE ESTIMATE REFLECT SEA HEROIN AS REPRESENTING NEARLY 20% OF TOTAL HEROIN AVAILABILITY IN THE U.S. IN 1983, UP FROM 14% THE YEAR BEFORE. THAILAND CONTINUES TO BE THE MOST FREQUENT INITIATION POINT FOR SEA HEROIN SHIPMENTS, BUT THE USE OF INDIA AS AN EMBARKATION POINT IS INCREASING AND IS REFLECTED IN SEVERAL SEIZURES MADE IN NEW YORK ON FLIGHTS ARRIVING FROM INDIA. THIS INFORMATION SUPPORTS INTELLIGENCE SUPPLIED FROM BURMA REGARDING INDIA'S INCREASED ROLE IN THE SHIPMENT OF HEROIN OUT OF SOUTHEAST ASIA AND THE PROBABLE ENTRY POINT OF HEROIN PROCEEDS BACK INTO SOUTHEAST ASIA FROM THE UNITED STATES.

CONCLUSIONS AND RECOMMENDATION

THIS SURVEY ON SOUTHEAST ASIA'S ROLE IN THE FLOW OF THE WORLD'S DRUG MONEY IS ONLY A FIRST STEP IN ATTEMPTING TO FOCUS IN ON THE TOTAL SITUATION INVOLVING MONEY LAUNDERING AND OFFSHORE HAVEN COUNTRIES.

AS IS THE CASE WITH MOST RESEARCH, THE ADDITIONAL INFORMATION THAT HAS BEEN ACQUIRED MAKES US EVEN MORE AWARE OF OUR LACK OF KNOWLEDGE IN THIS AREA. HOW THE MONEY IS MOVED CAN PROBABLY ONLY BE ANSWERED BY SAYING "AS MANY WAYS AS AN INDIVIDUAL'S INGENUITY AND IMAGINATION CAN CREATE."

THE INCREASED KNOWLEDGE WE ACQUIRE REGARDING THE WORLD'S DRUG MONEY, COUPLED WITH FACILITATED METHODS OF OBTAINING OFFSHORE FINANCIAL EVIDENCE, ARE PART OF DEA'S EXPANDING EFFORT TO TRACK AND DISRUPT INTERNATIONAL FINANCIAL FLOWS OF ILLEGAL DRUG MONEY. UNLESS WE PURSUE AN AGGRESSIVE PROGRAM TO REACH OUT BEYOND OUR OWN BOUNDARIES TO ATTACK THOSE ILLEGALLY ACQUIRED ASSETS, WE WILL NEVER TRULY REMOVE THE PROFITS THAT SERVE AS THE INCENTIVE FOR INTERNATIONAL TRAFFICKING OF DRUGS.

AT THIS TIME I WILL ATTEMPT TO ANSWER ANY QUESTIONS WHICH YOU OR OTHER MEMBERS OF THE COMMISSION MIGHT HAVE.

The Commission would
like to use a blowup
of this chart. Working
on it is current, and I
see no problem with its use.

Dick Mangano

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CASH FLOW CHART FROM HONG KONG
INDUSTRIAL AND COMMERCIAL BANK

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