



# AFGHAN NARCOTRAFFICKING A JOINT THREAT ASSESSMENT



**EASTWEST INSTITUTE**  
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On the cover: A scarecrow stands tall in a poppy field in northern Afghanistan.

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# **AFGHAN NARCOTRAFFICKING**

## A JOINT THREAT ASSESSMENT

JOINT U.S. - RUSSIA WORKING GROUP  
ON AFGHAN NARCOTRAFFICKING

APRIL 2013



**EASTWEST INSTITUTE**  
*Forging Collective Action for a Safer and Better World*

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An Afghan farmer works in a poppy field in Nangarhar province of eastern Afghanistan. According to a UN report, poppy cultivation in Afghanistan has been constantly increasing over the past 10 years. It is estimated that the country produces about 90 percent of the world's opium.

## FOREWORD

**T**he EastWest Institute is pleased to publish this Joint Threat Assessment on Afghan Narcotrafficking, a product of discussions, deliberations, and debates between U.S. and Russian subject matter experts. This project was conceived of as an innovative approach to sustaining dialogue and contributing to trust-building in the U.S.-Russia relationship at a time when a policy “reset” was needed.

In our view, for progress to be made in the U.S.-Russia relationship, it was vital that opportunities for cooperation be seized when they arose. Afghan narcotrafficking presented such an opportunity for this important bilateral relationship. As Presidents Obama and Medvedev outlined in their July 2009 summit, the United States and Russia both have substantial security interests in Afghanistan—and these interests are closely related to the issues of drug production and trafficking. The benefits to the United States and Russia of reducing the threat of narcotrafficking would be obvious—and, aside from the enhanced security to both states, concrete measures offered for Afghanistan could contribute to a stabilization of the situation there.

With generous funding from the Carnegie Corporation of New York, we launched the U.S.-Russia Working Group on Afghan Narcotrafficking in 2011 to bring together Russian and American technical and policy experts to share knowledge, make consensus assessments of the situation on the ground, and then to deliver innovative and concrete policy solutions that will have traction in both states (and to the larger relevant policy communities). This publication summarizes the Working Group’s consensus findings on the scope and threat of Afghan narcotrafficking. It will be followed in short order by a Joint Policy Assessment, which offers policy suggestions for both Russia and the United States to stem the seemingly endless flow of opiates from Afghanistan.

The Working Group members met in Washington, D.C., and Brussels in 2011 and 2012, for multiple days of working through a consensus assessment. Working group members also met with officials from the United States (the Drug Enforcement Administration, the Department of Defense), Russia (the Ministry of Foreign Affairs, the Federal Drug Control Service), NATO, and the European Union.

Despite the many ups and downs in the bilateral relationship between Russia and the United States, cooperation on counternarcotics has endured, developing slowly but steadily. Counternarcotics cooperation is expected to continue even though the reset policy between the two countries appears to have run its course. That neither United States nor Russia are prioritizing Track 1 engagement as they did in the past (and even halting such dialogue on some thorny issues) emphasizes the need for Track 2 approaches like this one.

The deterioration of bilateral U.S.-Russia relations at the end of 2012 and early 2013 might have put into question the willingness or ability to sustain the “reset” policy. It has not, however, changed the reality that the United States and Russia have common interests in counternarcotics (as well as in non-proliferation, antiterrorism, and the fight against organized crime) or the need for “closer cooperation with the U.S. on Afghanistan,” as stressed by Russian Foreign Minister Sergei Lavrov on February 2, 2013, at the Munich Security Conference.

The project coordinators wish to extend a note of thanks and appreciation to Dr. Ekaterina Stepanova, a member of the expert group who drafted the joint threat assessment, which was discussed in detail by the group, who made additional inputs and repeatedly revised and updated the report. We also wish to thank the several research assistants at the EastWest Institute who also contributed to research, fact-checking, and the logistics of the groups’ meetings: Talin Baghdadian, Athina Doutis, Joseph Messina Jr., Ardian Mollabeciri, Judith Sabba, and Alex Schulman.

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# 1. Introduction

The opium economy in Afghanistan has become deeply entrenched and shows no signs of declining.

## Afghanistan: Approaching 2014 and Beyond

More than a decade after the United States and allied troops began military operations in Afghanistan, the country remains a major conflict zone. Afghanistan's continuing instability constitutes the largest security issue in the region. The country's role as the center of global opiate production contributes heavily to this instability. The grave social, economic, political, and security implications of the trafficking of the Afghan opiates extend beyond the regions of South, Southwest, and Central Asia. The opium economy in Afghanistan has become deeply entrenched and shows no signs of declining. Inside Afghanistan, narco-trafficking contributes to insecurity and feeds corruption, warlords, and insurgents. All this vastly complicates the prospects of the Afghan central government consolidating its power and effectively governing. Compounding these issues is the scheduled withdrawal of NATO forces from Afghanistan in 2014 and the ongoing drawdown of U.S. troops.

Weeks into his second term, President Barack Obama announced his intention to speed up the drawdown of U.S. forces from Afghanistan, withdrawing half of the 66,000 deployed troops by January 2013 and shifting from a combat to a support operation by spring of 2013, several months ahead of schedule. But the White House has still not come to a decision about troop levels for the post-2014 "Resolute Support" mission—and estimates of the numbers have ranged from the "zero option" to 20,000 troops, although the Pentagon has reportedly drawn up plans for 3,000, 6,000, or 9,000 troops to remain. Afghan President Hamid Karzai has said the final decision on troop size is up to the United States, although he reportedly prefers a high-

er troop level. Regardless of the pace of the withdrawal and of the scale and substance of residual U.S. involvement after 2014, determined by a bilateral security agreement with Afghanistan, the Afghan government will be fully responsible for providing its own security. There is real concern whether Afghan military and police forces will be up to the task.

Complicating Afghan efforts to assume security functions are weak and dysfunctional governance, unabated corruption, deteriorating security, and an ongoing if not strengthening insurgency. And, while the pending withdrawal of the bulk of NATO forces has spurred the dynamic interaction of insurgent and counter-insurgent violence with informal and formal contacts and talks involving the combatants, thus far, no genuine political solution in Afghanistan is in sight.

Throughout the U.S. and NATO direct security presence in post-Taliban Afghanistan, the quick resurgence and the exponential growth of the opium economy has posed a major challenge at the national, regional, and international levels. The cultivation and trafficking of Afghan opiates directly threaten security in a wide range of countries, from Afghanistan and its immediate neighbors to major end-markets such as Europe, Russia, and China. As NATO and U.S. troops prepare to withdraw from Afghanistan, which is still struggling with a highly volatile security situation, weak governance, and major social and economic problems, the size of the opium economy and opiate trafficking are likely to increase and pose an even greater challenge to regional and international security.



## The U.S.-Russia Context

The consequences of Afghanistan's ongoing security issues have spread far beyond its borders. Many states have an inherent interest in Afghanistan developing along a more stable and prosperous path. Russia is perhaps facing the most devastating human security challenges from Afghan narcotics trafficking because Afghan opiates have made their way into Russia in startling numbers. The United States and Russia are thus motivated and positioned to cooperate to combat Afghan narcotics trafficking, since the United States is the main external security and counternarcotics player in Afghanistan—and will continue to be even after its combat mission ends in 2014.

The boom in poppy cultivation and opiate production following the collapse of the Taliban regime in 2001 has had a significant impact on Russia, which has become one of the largest consumers of Afghan heroin. Russia has subsequently criticized the U.S. and NATO for this increase in production and their unwillingness to pursue an aggressive eradication policy in Afghanistan.

Many experts believe that recent but limited successes in decreasing poppy cultivation in some provinces will be unsustainable once the NATO presence ends in December 2014. And some provinces have been experiencing an increase in poppy cultivation, undermining earlier gains. Although Governor-led Eradication (GLE) increased by some 154 percent from 2012 over 2011, there was 18 percent more land under poppy cultivation in 2012 than in 2011.<sup>1</sup> Most cultivation gains were in Afghanistan's southern region, which include the most insecure provinces, and the western region, where some provinces are becoming more insecure. Russia is justifiably

concerned that the shift of security responsibilities to the still weak or fledgling Afghan structures, coupled with increasing freedom of trade and movement in parts of Central Asia, may further aggravate the threat posed by the inflows of Afghan opiates into Russia.

There is, then, a clear and compelling interest on both the Russian and U.S. sides in stepping up cooperation on drug control in Afghanistan and beyond. This cooperation had begun before the "reset" of U.S.-Russia relations announced by U.S. Secretary of State Hillary Clinton and Russian Foreign Minister Sergey Lavrov in March 2009. A renewed push by both Russia and the United States for more active counternarcotics cooperation on issues ranging from interdiction to demand reduction was highlighted by President Obama and then President Dmitry Medvedev's June 2010 Joint Statement on Afghanistan. They emphasized the interdiction of narcotics flows and the work of the Counternarcotics Working Group of the U.S.-Russian Bilateral Presidential Commission (BPC) led by the U.S. Office of National Drug Control Policy Director Gil Kerlikowske and Russian Federal Drug Control Service (FSKN) Director Viktor Ivanov.

Despite the many ups-and-downs in the bilateral relationship between Russia and the United States, cooperation on counternarcotics has endured, developing slowly but steadily. Counternarcotics cooperation is expected to endure even though the reset policy between the two countries appears to have run its course. The deterioration of bilateral U.S.-Russia relations at the end of 2012 and early 2013 might have put into question in some circles the broader bilateral relationship. It has not, however, changed the reality that the United States and Russia have com-

There is, then, a clear and compelling interest on both the Russian and U.S. sides in stepping up cooperation on drug control in Afghanistan and beyond.

To better understand and explain the differences in U.S. and Russian approaches to this problem, it is useful to reexamine the scale, nature, and type of threat posed by the production and trafficking of Afghan opiates.

mon interests in counternarcotics (as well as in non-proliferation, antiterrorism, and the fight against organized crime) or the need for “closer cooperation with the U.S. on Afghanistan,” as stressed by Russian Foreign Minister Sergei Lavrov on February 2, 2013, at the Munich Security Conference.<sup>2</sup> Nor does it affect practical cooperation on counternarcotics, which, according to an FSKN spokesperson, is “on the rise.”<sup>3</sup> This cooperation has also been facilitated by the relative closeness of both states’ respective national counternarcotics strategies.

While both Russia and the United States have an interest in stepping up cooperation on drug control and counternarcotics, Russia is heavily constrained in terms of what it can do. It does not and will not have a direct security presence in Afghanistan, especially in light of the troubled 1980s Soviet experiences in that country. But Russia has provided assistance to the U.S. and NATO security presence in other ways. In 2012, for example, Russia further extended its support to them by providing a crucial transport corridor and logistical support to non-lethal and military transit related to Afghanistan (the Northern Distribution Network). Despite some domestic objections, the administration of President Vladimir Putin has proceeded with plans to allow U.S. and NATO forces to use a Russian air base in Ulyanovsk as a transit hub for flights to and from Afghanistan. As the U.S. and NATO scale down their security presence in Afghanistan, they are trying to get other regional states, such as Russia, as well as regional organizations more actively involved in managing the Afghan problem, including its counternarcotics aspects.

Importantly, however, the United States and Russia differ in their main priorities vis-à-vis Afghanistan and in their respective security threat assessments.

For the United States, the main interest in Afghanistan since 2001 has been security related. Initially, counterterrorism remained the U.S. top priority and was tied to a growing concern about the escalating insurgency and dysfunctional governance. Only in 2005 did the United States start to address more comprehensively the security implications of the opiate trade for its presence in Afghanistan, including within the NATO-ISAF framework. Reluctance by some NATO members to engage on counternarcotics, which was

primarily seen as a law enforcement issue, hampered the adoption of a more comprehensive approach across Afghanistan. The U.S./NATO emphasis on the link between narcotics and the insurgency (and terrorism) in Afghanistan came at the cost of attention to the role of opiates as a source of government corruption and an impediment to state functionality.

For Russia, the scale and hierarchy of threats and priorities is different. The expansion of the opium industry in Afghanistan, especially after 2001, and the inflow of illicit Afghan drugs, primarily heroin, became Russia’s largest challenge from Afghanistan and posed a vital and direct threat to its national security. Narcotrafficking outweighs all other security concerns that Russia has about the situation in Afghanistan, including those related to terrorism and instability. Given the consistently high levels of opiate production in Afghanistan throughout the first decade of this century, Russian officials have persistently complained that U.S. and NATO counternarcotics efforts and support to Afghanistan have been limited and insufficient. The FSKN has especially been promoting more proactive and tougher counternarcotics strategies, such as aerial eradication, and more robust efforts against key drug lords and laboratories.

There are also broader political controversies and concerns regarding the general situation in and around Afghanistan, especially given the limited progress in building a secure, stable, and functional government. The United States and Russia may have different and even some conflicting political and strategic priorities in relation to Afghanistan and Central Asia. These tensions are not likely to subside, particularly as the United States, while scaling down its ground presence in Afghanistan, may seek to keep or even expand some back-up security presence in the broader region, including Central Asia. However, when it comes to interdiction, development, and most other aspects of counternarcotics and drug control in relation to Afghan narcotrafficking, the U.S. and Russia’s efforts and capacities appear to be complementary rather than contradictory and may point to some natural division of counternarcotics assistance and responsibilities in the broader region.

To better understand and explain the differences in U.S. and Russian approaches to this

problem, it is useful to reexamine the scale, nature, and type of threat posed by the production and trafficking of Afghan opiates. This report seeks to analyze these issues by placing them in the broader context of regional and international security.

## Report Overview

With the withdrawal of NATO security forces and drawdown of U.S. troops underway, some may contend that sustainable counternarcotics efforts in Afghanistan are doomed. The prospects for any significant reduction of the opium economy appear slim. This report, however, takes issue with a simplistic hands-off view that Afghanistan is quickly becoming (or already has become) an intractable problem. Instead, it critically reexamines Russian and U.S. interests, concerns, strategies, and capacities; the general driving forces behind the opium economy in Afghanistan, including the complex links between drugs, the socio-economic environment, corruption, militancy, and governance failure; and the main patterns of transnational trafficking of Afghan opiates and related money laundering.

The report's main point is not to merely reproduce the already well-publicized data and findings of one or both of the two main global sources on cultivation, production, trafficking, and consumption of Afghan opiates—the United Nations Office on Drugs and Crime (UNODC) and the U.S. government. Rather, it takes a critical, comparative perspective on the data, supplements it with evidence from other sources, and reexamines it by focusing on the U.S.-Russian implications. Since the data on various aspects of the illicit drug business and the Afghan narcotics trafficking is often imperfect and incomplete, the report had to rely on comparative analysis of existing data, while not losing sight of multiple reservations about its veracity. We also had the benefit of the extensive fieldwork and expertise of the members of our unique U.S.-Russian expert group in informing this analysis.

Our work seeks to supplement and provide expert support to, rather than duplicate, the work of the Counternarcotics Working Group (the “Kerlikowske-Ivanov group”) of the U.S.-Russian Bilateral Presidential Commission. This report results from a non-governmental initiative that aims to come up with independent conclusions about U.S. and Russian na-

tional priorities and the challenges and prospects for bilateral cooperation.

The United States and Russia are threatened by different aspects of Afghan narcotics trafficking and to a significantly different extent. The report will outline the comparative type and scale of respective threats and the extent to which they are prioritized at the national level. At the same time, the paper's primary focus is on identifying points of shared concern about the broader implications of Afghan narcotics trafficking. These shared concerns are related both to the more general links to global transnational crime, especially to related money laundering, and to the more specific links to the dysfunction of the state, corruption, and armed violence within and around Afghanistan.

This focus has dictated the structure of the report. Section 2 provides a comparative overview of the U.S. and Russia's exposure to and perceptions of the threat emanating from Afghanistan. It is followed by an outline of the mainstays of the Afghan opium economy, including their role in spurring corruption in Section 3. Section 4 is devoted to the transnational trafficking of Afghan opiates and related money laundering that mostly take place outside Afghanistan and have broad transnational repercussions. The complex links between illicit drugs, armed violence (in the form of warlordism, local and regional power struggles, and insurgency) and state functionality and legitimacy are addressed in Section 5. The concluding Section 6 formulates a set of key findings that summarize both the common ground as well as the nuances in the U.S. and Russian assessments of the challenges posed by Afghan narcotics trafficking. This outline highlights the issues for U.S.-Russian cooperation that will serve as a bridge to the next stage of this group's work.

The findings of the report are not part of any official policy and are the sole responsibility of this expert group. To the extent possible, the report's conclusions and analysis are consensus-based.

The present threat assessment report is the first product of the work of the U.S.-Russian expert group on Afghan narcotics trafficking. A second report will follow with a set of general and more detailed recommendations on the way forward for U.S.-Russian cooperation.

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# 2. Afghan Narco- trafficking as a Threat to Russia and the United States

Russia is one of the largest per capita consumers of heroin in the world.

**A**fghan narco-trafficking poses major global, regional, and local security threats. The exact type, scale, and nature of this threat vary significantly, depending on who is doing the assessment at what stage of the narcotics chain. The once relatively strict supply-demand division behind any narco-trafficking chain is becoming increasingly blurred as large-scale drug abuse has become prevalent not only in the end-market states (such as Russia or the UK), but also in the main producing state itself (Afghanistan) and along the key transit countries (neighboring Iran, Pakistan, and the states of Central Asia). Afghanistan is not only the main source of illicit opiates but also one of the main victims of its narco-trafficking. To complicate matters further, narcotics-related threats and narco-trafficking patterns are dynamic rather than static and have evolved—changing direction, substances, and scale over time.

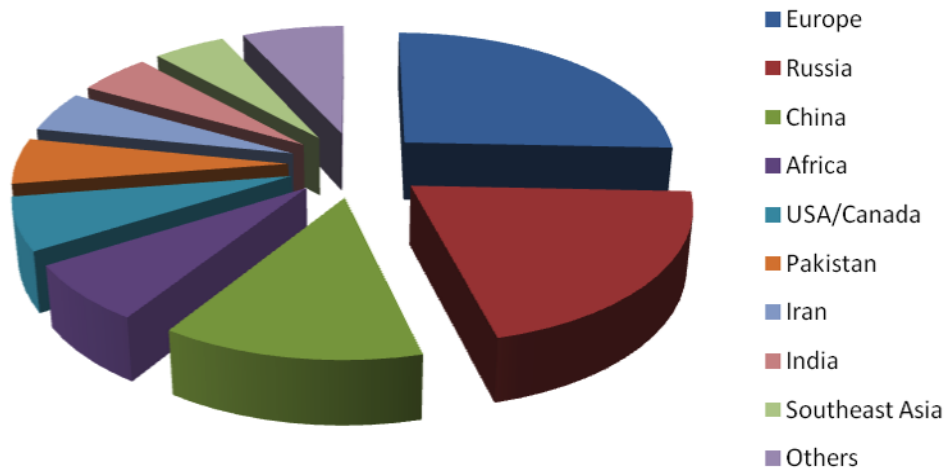
In order to identify potential drivers for fostering U.S.-Russia cooperation on Afghan narco-trafficking in the near and more distant future, the general threat first needs to be disaggregated in order to understand the respective concerns of Russia and the United States.

## Russia as a Market for Afghan Heroin

Over the past two decades, the problem of illicit drugs has become a top national and

human security threat to Russia. Illicit drug circulation has been listed by Russia's Security Council as one of three main security challenges facing the country, alongside terrorism and illegal migration.<sup>4</sup> Russia has repeatedly called on the United Nations and the international community to label the production and trafficking of Afghan opiates as a major "threat to international peace and security," which would put it on par with international terrorism. This reflects the fact that Russia turned into a transit and consumer country for illicit drugs in the 1990s and in the first decade of the 21st century became one of the largest consumer markets for Afghan heroin. While Russia's drug problem is not confined to Afghan opiates, they continue to dominate the market.

Of the estimated 365 metric tons (mt) of heroin exported from Afghanistan in 2009, 90 mt (or approximately 25 percent) are trafficked through Central Asia via the Northern Route.<sup>5</sup> The majority of heroin trafficked along the Northern Route—approximately 75-80 mt—ends up in Russia.<sup>6</sup> According to United Nations Office on Drugs and Crime (UNODC) estimates, Russia may be the largest single country market for Afghan-origin heroin, consuming almost the same amount of pure heroin as all the countries of Western and Central Europe combined. Russia is one of the largest per capita consumers of heroin in the world (although Afghanistan and Iran have higher opiate prevalence rates).<sup>7</sup> It took Russia less than two decades to shift from very low narcotics usage in the Soviet period



**Fig. 1. Global heroin consumption, 2008**

to becoming one of the largest consumer markets for heroin.

The relative stabilization of opiate inflows to Russia may also be short-lived. The situation can easily deteriorate in the next few years, despite Russia's intensifying counternarcotics and drug control efforts at home. This is especially true considering the looming wrap-up of NATO operations in Afghanistan in the absence of a fully functional state or lasting political settlement. This will mean continuing violence, insecurity, and contested governance. Thus, in a deeply-embedded opium economy that lacks viable income-generating alternatives, antinarcotics measures and strategies, whether tough or soft, are unlikely to lead to a sizeable reduction of the opium economy and its output in the short term.

In addition, weak border controls and feeble national counternarcotics capacity in Central Asia cannot keep pace with the growing possibilities for traffickers created by expanding trade flows and transport infrastructure. Coupled with the new free-trade regime between Belarus, Russia, and Kazakhstan, which has lifted customs controls on the world's longest land border between Russia and Kazakhstan, these risk factors could facilitate trafficking and further complicate counternarcotics efforts along the Northern Route.

Trafficking of heroin and other drugs from Afghanistan to Russia via Central Asia may increase, leading to higher consumption and prevalence rates. As estimated by UNODC

and Russia's Federal Drug Control Service (FSKN), there are 1.7 million opiate users in Russia, comprising 68 percent of the roughly 2.5 million drug addicts and 1.64 percent of the total population, with 80,000 new drug users, 30,000 deaths from overdose, and 70,000 other drug-related deaths each year.<sup>8</sup> Related negative social and economic implications produce economic losses of up to 3 percent of Russia's GDP. Narcotics-related health issues are particularly pressing, including rising HIV rates.<sup>9</sup>

In Russia, the health implications of opiate and other drug abuse are exacerbated by deficiencies in demand reduction strategies, such as the low effectiveness of drug-addiction medical treatment programs and the acute shortage of treatment and social rehabilitation centers and specialized personnel.

### **U.S. Presence in Afghanistan: Counternarcotics Implications**

Unlike Russia, the United States is not directly threatened by Afghan opiates. According to the U.S. Drug Enforcement Administration (DEA) officials in discussions with expert group members, Afghan heroin is thought to account for between 5 to 6 percent of the U.S. heroin market, based on heroin signature program analyses. And although Afghan heroin is expected to make increasing inroads into the U.S. market through Canada, the scale is simply not comparable. The United

Source:  
UNODC, World  
Drug Survey,  
2009.

For the United States, the main problems in Afghanistan remain insurgency, terrorism, and dysfunctional governance, with concern about heroin cultivation and trafficking initially prompted by their role as a source of insurgency funding.

States may seem to have less of an incentive to combat the opiate threat than Russia does, but it has direct access to the source of the problem, putting it in a better position than Russia to act.

For the United States, the main problems in Afghanistan remain insurgency, terrorism, and dysfunctional governance, with concern about heroin cultivation and trafficking initially prompted by their role as a source of insurgency funding. In the early years of this century's first decade, when the security situation was initially less tense and the insurgency movement was regrouping and consolidating, the U.S. focused primarily on antiterrorism, state-building (with particular emphasis on the security sector), and development. While the DEA reopened their Kabul office in January 2003, at that stage counternarcotics was largely seen as an outcome of wider state building efforts, particularly investments in rural development. Dependence on regional powerbrokers—some of whom had direct interests in the drugs trade and local political bargains in which drug-crop cultivation and the trade in narcotics played a part—limited the scope for more robust counternarcotics efforts.

The United States' increased interest in counternarcotics efforts followed the marked increase in poppy cultivation and opium production in Afghanistan in 2004, and subsequently with the deteriorating security situation in late 2005 and 2006, particularly in the southern region. The United States has made a significant financial contribution to counternarcotics efforts in Afghanistan, both directly (allocating about 2.9 billion USD in 2001–2009) and through activities that do not fall under counternarcotics budgets.<sup>10</sup>

After coming to power in 2009, the Obama administration reformulated U.S. counternarcotics policy in Afghanistan. This was in recognition of the continuing high levels of opium production in Afghanistan and growing concern about the extent to which the insurgency was being funded by narcotics. The new strategy also reflected a certain revision of the traditional U.S. counternarcotics approach and priorities, since it did not want to be seen as supporting eradication. The new administration believed such tactics could alienate the population in insecure areas and undermine the “heart and minds” pillar of its counterinsurgency strategy.

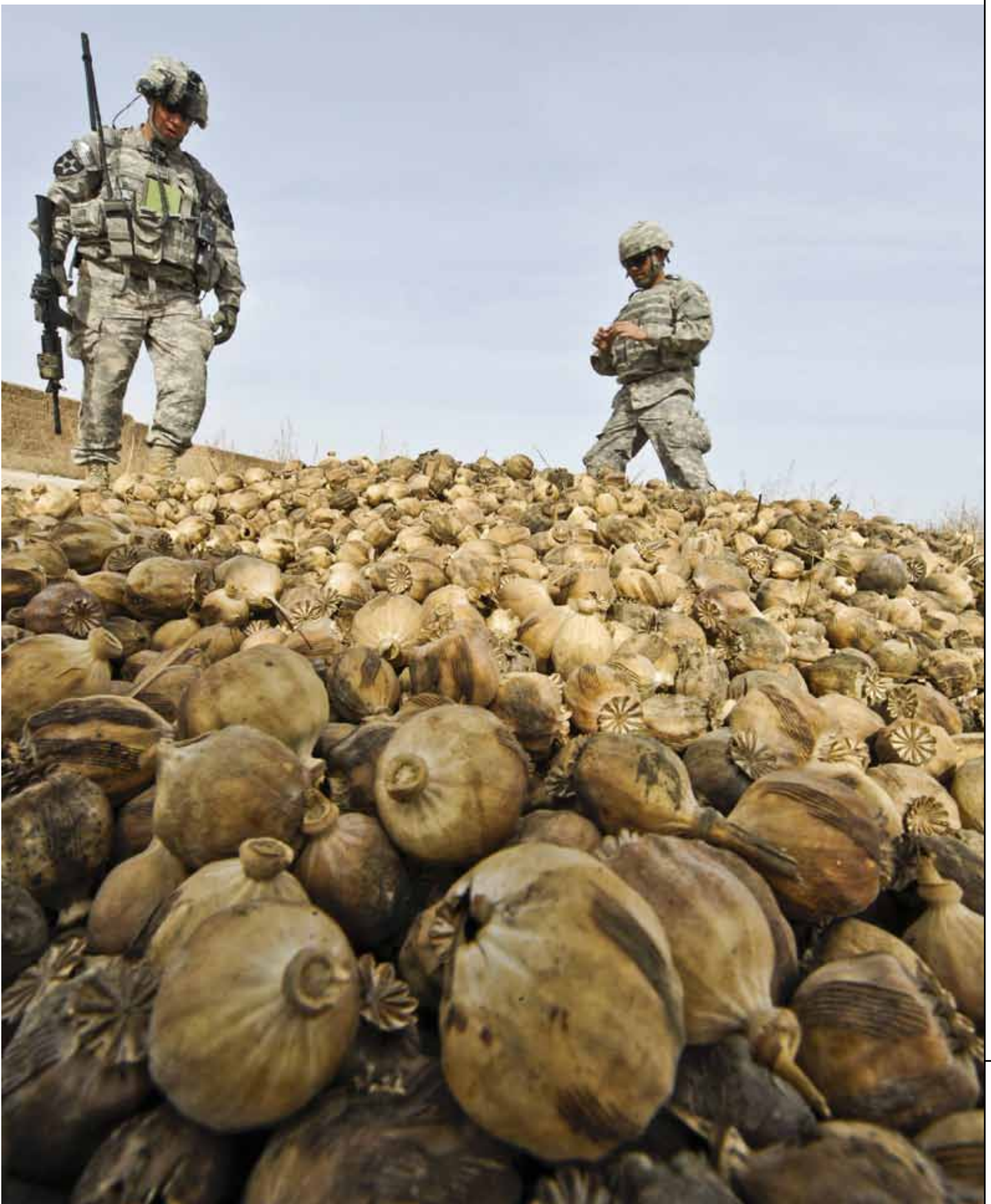
In March 2009, U.S. Special Representative for Afghanistan and Pakistan Richard Holbrooke

went so far as to call previously allocated U.S. funds for counternarcotics in Afghanistan “the most wasteful and ineffective program” he had “seen in 40 years in and out of the government.”<sup>11</sup> On June 27, 2009, Holbrooke announced the revised counternarcotics strategy during a G8 conference in Trieste on stabilizing Afghanistan.<sup>12</sup> The revised policy rejected aerial eradication and prioritized a combination of interdiction (drug seizures and targeting drug traders, cross-border traffickers, and heroin laboratories) and alternative development.<sup>13</sup>

At the same time, in both theory and practice, the revised U.S. counternarcotics strategy in Afghanistan has become even more strictly subordinated to U.S. counterinsurgency strategy. The central focus of U.S. counternarcotics strategy remains identifying and disrupting funding support for insurgent forces. As a result, U.S. support for drug interdiction efforts has been largely confined to “going after those targets where there is a strong nexus between the insurgency and the narcotics trade, to deny resources to the Taliban.”<sup>14</sup> The United States is also paying growing attention to alternative development solutions.

The fact that only a miniscule share of Afghan opiates makes it to the U.S. market does not mean that it does not face a major opiate problem at home. The United States remains the largest drug market in the world.<sup>15</sup> While it is a highly diversified market, its opiate segment is significant. The opiate problem for the United States may be intensifying: the amount of heroin seized from 2005 to 2010 almost doubled to reach 2.42 mt. The U.S. market for illicit opiates is dominated by suppliers other than Afghanistan. According to the DEA, the main inflows come from South America: 58 percent of heroin seized in the United States in 2011 was of Colombian origin and 39 percent originated in Mexico.<sup>16</sup> In addition, a large part of the U.S. opiate market consists of licit opioids entering the illicit market, i.e., the non-medical use of prescription medicines, which is the fastest growing drug problem in the United States.<sup>17</sup> Last but not least: Afghan opiates may currently have a marginal presence in the U.S. market, but according to the International Narcotics Control Board, 78 percent of heroin trafficked to Canada is from Afghanistan. Without more effective counternarcotics efforts in Afghanistan, it could be just a matter of time before Afghan opiates gain a larger share of the U.S. market.

A U.S. Army colonel and his Afghan interpreter discover a pile of dried poppy plants in Badula Qulp, Helmand province.



## Comparative Threats and Shared Concerns

The situation in and around Afghanistan poses a major challenge to regional and international security. Afghan narcotrafficking accounts for much of this challenge. However, the opiates originating in Afghanistan clearly do not pose a major direct threat to all stakeholders. Furthermore, the kinds of threat that Afghanistan's illicit opiate output does pose to its neighbors, as well as to Russia and other European and Asian states, may significantly vary in scale and composition. The size of the threat is quite different even for Russia and some of the other consumer end-markets in Europe. While the Russian market is overwhelmed by Afghan heroin, European markets are generally much more diversified. Illicit drug flows from South and Central America, especially via West Africa, have become their most pressing drug-related threat as stabilizing opiate consumption gave way to growing inflows of cocaine from those regions.

Russian and U.S. priorities, threats, and interests related to Afghan narcotrafficking differ even more significantly. For Russia, the most vital threat posed by Afghan narcotrafficking is to its own society and to domestic public health. Social and human security takes priority. The United States is concerned with the security implications of the opiate trade for its presence in Afghanistan, including within the ISAF framework, and emphasizes the opiates' link to insurgency/terrorism. More recently, the role of the illicit drug business as a source of corruption and, thus, an impediment to state functionality has received more attention.

So while both the United States and Russia face very real threats, their main concerns regarding Afghan narcotrafficking are actually quite different. This is key to explaining why Washington and Moscow tend to emphasize different aspects of counternarcotics in their respective strategies for Afghanistan. Moscow pushes for a robust eradication campaign to be supported by interdiction and development measures. Washington promotes a strategic combination of select interdiction efforts with alternative development measures while simultaneously providing support to and increasingly relying on the Afghan security sector for counternarcotics.

The direct harm to Russia as a nation and society from addiction to and abuse of Afghan opiates can hardly be compared to the minimal presence of Afghan opiates in the U.S. market, but it may be comparable to the threat that the United States has faced from Colombian cocaine, both in terms of scale and preferred response strategies. The kind of strategy that the Russian government has been promoting for Afghanistan replicates U.S. counternarcotics strategy in Colombia, with its reliance on large-scale aerial eradication, in combination with economic assistance and measures to strengthen state institutions, particularly the security sector.

While the U.S. government's position against aerial eradication in Afghanistan has irritated Russia, it also has several rational explanations. As opposed to Colombia, illicit cultivation in Afghanistan is typically on small fields, located next to food crops, livestock, and the sources of irrigation and drinking water. Aerial spraying could not occur without causing considerable damage (real or perceived) to licit crops and potentially human and animal health.

More importantly, thematic evaluations by UNODC and the Commission on Narcotic Drugs (CND) highlight that an effective counternarcotics strategy is one that eradicates only in areas where viable alternatives exist.<sup>18</sup> In addition, aerial or widespread eradication risks provoking popular unrest and increasing support for the insurgency. The Afghan government and some of the United States' major allies, including the United Kingdom (former ISAF lead nation on counternarcotics), the European Commission, and development organizations such as the World Bank, have consistently opposed aerial eradication.

Despite these differences, the U.S. and Russia are more actively cooperating on counternarcotics measures in and beyond Afghanistan. The FSKN and DEA engage frequently—nearly every month. Efforts can go beyond bilateral fora: the Russian government has agreed to host the International Drug Enforcement Conference (IDEC) in 2013, for example. IDEC brings together law enforcement representatives from more than 40 countries to share strategies in dealing with illicit drugs.

Nor should the differences on counternarcotics strategies in Afghanistan imply that the two powers do not have some shared

So while both the United States and Russia face very real threats, their main concerns regarding Afghan narcotrafficking are actually quite different.



concerns that are highly relevant for both. It would be an over-simplification to reduce the problem of Afghan narcotics trafficking in the U.S.-Russia context to Russia's obsession with its own drug addiction and abuse and the U.S. prioritizing counterinsurgency over counternarcotics. There are at least three broader transnational aspects of the problem that suggest that the United States and Russia may, in fact, have more common ground on the issue than it may otherwise seem.

First, of all types of transnational crime, narcotics trafficking remains the largest threat at the global level and opiates account for a large share of global narcotics trafficking and markets. Both the United States and Russia bear the high costs of serving as large opiate markets and face serious opiate abuse problems, even if the respective opiate flows originate from different parts of the world. Both countries have strong interest not only in promoting international drug control and counternarcotics cooperation in general, but also in the more specific international initiatives aimed at reducing opiate trafficking and global opiate markets in a coordinated manner. This is important, as the highly self-regulatory nature of this type of market tends to quickly compensate for declining demand or restricted supply in one regional context by counterbalancing trends in other producing and consuming regions. Given Russia's weakness in demand reduction and the United States' longer track record in treating drug abuse and addiction, sharing best practices from the demand reduction side of the equation is another potentially rich avenue of cooperation.

Second, narcotics trafficking is not only a markedly multi-faceted challenge that combines economic, security, social, and political threats, it also has a particularly close relationship to—and strong propensity to exacerbate—a broad range of other transnational threats. The links between narcotics trafficking and other types of transnational crime and money laundering are endemic. Other types of transnational crime and especially money laundering are less tied to several major “source areas” and respective transit routes around the world, in contrast to production and trafficking of illicit substances such as opiates. The laundering of proceeds from illicit trade in Afghan opiates may take place in areas that are neither primary transit routes nor main consumer markets for these drugs,

but are major regional financial hubs or global financial centers. For instance, the United States is not the primary destination for the Afghan heroin, but the proceeds from Afghan narcotics trafficking may affect U.S. interests while being laundered through the international financial system.

Third, links between narcotics trafficking, corruption and dysfunctional governance, and organized armed violence, including terrorism, have long been recognized internationally and are fully acknowledged by both the United States and Russia. These connections are not limited to major drug-producing areas alone. In an era of “glocalization”—dynamic interaction of globalization and localization—such linkages not only easily spill over borders in the direction of the main trafficking routes (e.g., from Afghanistan to Pakistan or Central Asia), but also tend to acquire a broader cross-regional transnational dimension. Both countries view these increasingly complex transnational networks as posing a new type of threat at the regional and global levels. These growing concerns are apparent in the *U.S. Strategy to Combat Transnational Organized Crime* (July 2011).<sup>19</sup> This report contains a detailed assessment of the proliferation of transnational organized criminal networks, their growing use of corruption to co-opt or weaken governance in many states, and the intensifying links between drug trafficking and various types of armed violence and militancy.

Because the opiate output from Afghanistan is likely to rise more rapidly post-2014, the U.S.–Russia angle in international and regional cooperation on tackling Afghan narcotics trafficking will become more pressing. While countering the drug trade along the main trafficking routes and in the main consuming countries is essential, no sustainable progress can be achieved until the problem is systematically addressed at the source—Afghanistan.

Through this prism of respective priorities and shared concerns about Afghanistan and Afghan narcotics trafficking, the following sections of this report review key aspects of the complex set of threats posed by the opium economy in Afghanistan and the transnational trafficking of Afghan opiates.

While countering the drug trade along the main trafficking routes and in the main consuming countries is essential, no sustainable progress can be achieved until the problem is systematically addressed at the source—Afghanistan.

# 3. The Opium Economy in Afghanistan: An Overview

For much of the first decade of the 21st century, poppy cultivation in Afghanistan rose and its overall level was higher than that under the Taliban de facto rule in the second half of the 1990s.

According to the UNODC, in 2011 Afghanistan accounted for almost two-thirds of global poppy cultivation and 82 percent of global opium production.<sup>20</sup> According to the U.S. government, which uses a different methodology for estimating poppy cultivation and opium yields, Afghanistan had an even higher production rate and produced roughly 90 percent of the world's illicit opium.<sup>21</sup>

Afghanistan became a major source of global opiate inflow in the late 1970s and 80s and turned into the primary source of the global poppy cultivation and opiate production in the 90s. Afghanistan's opiate output has continued to grow since the U.S.-led intervention in 2001. The area under poppy cultivation in the peak year of 2007 (193,000 ha) was more than 25 times larger than the low of 8,000 ha in 2001—the last year of de facto Taliban rule, when the strict ban on poppy cultivation had been effectively enforced.<sup>22</sup>

In post-Taliban Afghanistan, in addition to weak governance, insecurity, and the rapid rise in opium price that followed the Taliban ban on poppy cultivation, three other main factors contributed to the overall increase in high levels of poppy cultivation and opium production. These three factors are related to the multiple roles played by the opium economy and coincide with its three main functions.

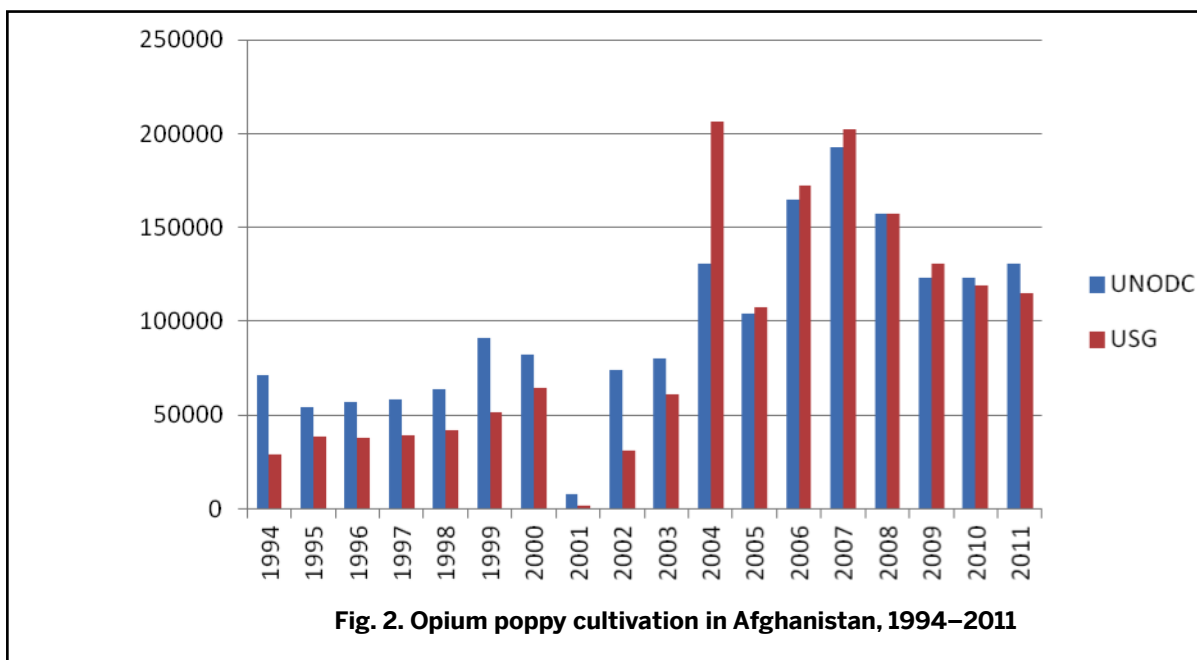
First, poppy cultivation and opium production provides farmers with a major source of

cash-generating income. The bulk of the cultivation takes place in relatively marginalized areas with poor access to markets, few or no cash-generating alternatives, and a lack of general security.

Second, opium production, local trade in, and the cross-border trafficking of Afghan opiates offers a lucrative source of income for various informal economic entrepreneurs such as larger landowners; local and cross-regional traders within Afghanistan; cross-border smuggling networks; and warlords and corrupt officials.

Third, taxing poppy cultivation, opium production and, to a lesser extent, the opiate trade serves as a conflict resource, primarily as one of several sources of funding for the anti-U.S./NATO and anti-government insurgency dominated by the Taliban.<sup>23</sup>

This section addresses the first of three main functions of the opium economy. It both views the Afghan opium economy as a whole and provides some differentiation between various regional contexts. The main focus is on the southern provinces, which form the core of the Afghan opium economy. This area serves as the main source of Afghan heroin, including heroin trafficked via Central Asia to Russia. Attention is also paid to the north/northeast of Afghanistan where poppy cultivation is low, but heroin manufacturing, opiate trafficking and consumption, and narcotics-related corruption thrive.



**Fig. 2. Opium poppy cultivation in Afghanistan, 1994–2011**

## Cultivation and Production Trends

### Cultivation Trends

For much of the first decade of the 21st century, poppy cultivation in Afghanistan rose and its overall level was higher than that under the Taliban de facto rule in the second half of the 1990s. Cultivation and production have not always displayed a linear increase, instead following a cyclical pattern of a large-scale increase in the early to mid-2000s, followed by a short-lived decline in 2008–2009, and a renewed increase in cultivation since 2010. Of more critical importance, however, are the possible explanations of the factors that contributed to both the general upwards trend in cultivation and production and an interim decline in 2008–2009.

Following the historical peak year of 2007, the area under poppy cultivation in Afghanistan temporarily decreased in 2008–2009, but even then it remained 35 percent larger than in the peak year of cultivation under the Taliban (1999).<sup>24</sup> A temporary decline in poppy cultivation in Afghanistan in 2008–2009 primarily occurred due to combined pressures by market forces at global, regional, and local levels. This was the result of several factors: a positive market correction towards a short-term shift to wheat cultivation amidst a global food crisis; rising wheat prices coupled with low-cycle opium prices due to over-production in the previous years; and growing food

insecurity of individual farmer households. Compared to those changing economic conditions, the limited eradication efforts played only a marginal role in this temporary reduction in poppy cultivation.

It is not surprising that the decline was short-lived. Between 2009 and 2011, total cultivation remained relatively stable, and the variation in annual opium production was mostly due to changes in per-ha yield affected by weather conditions and plant diseases. Cultivation started to rise again, reaching, according to the UNODC, 131,000 ha in 2011, or a 7 percent increase for the two previous years, and 154,000 ha in 2012 (an 18 percent increase from 2011).<sup>25</sup> The number of poppy-growing provinces increased again and the amount of opium produced increased by 61 percent to reach 5,800 mt in 2011.<sup>26</sup> According to an alternative U.S. government estimate, poppy cultivation marginally dropped by 3 percent in 2011 (to 115,000 ha), but opium production increased by 38 percent, reaching 4,400 mt.<sup>27</sup> Even as governor-led eradication at the provincial level increased by 65 percent in 2011 and by 154 percent in 2012, it only eliminated approximately 3 and 6 percent of total cultivation respectively.<sup>28</sup>

It is alarming that poppy cultivation in Afghanistan has not declined since 2009 and that opium production has largely been on the rise again.<sup>29</sup> The data for 2012 show a marked increase in cultivation over 2011 (18 percent) despite an increase in Governor-led Eradication (GLE). Ninety-five percent of

Sources: UN Office on Drugs and Crime Afghanistan Opium Survey; U.S. Government/International Narcotics Control Strategy Report.

Poppy cultivation offers the possibility of generating quick cash income, particularly in areas that lack alternative economic opportunities and general security.

opium cultivation in Afghanistan took place in the south (72 percent) and west (22 percent).<sup>30</sup> Helmand province in the south remains the single largest opium-growing province—in 2012, 49 percent of cultivation took place in this one province. Cultivation increased in the west by 57 percent (including a 195 percent increase in Herat), in the eastern region (Badakhshan, Takhar, Kunduz) by 37 percent, and in the north-eastern region by 13 percent. The central region and the northern region did enjoy a decrease in cultivation (45 percent and 42 percent respectively), but these two regions account for less than 1 percent of cultivation.<sup>31</sup> Although multiple provinces in Afghanistan still enjoy a “poppy-free” label, the pursuit of this label itself has ambiguous consequences with the potential to contribute to destabilization. “Poppy-free” is no longer just a measure of the distribution of development funds but is now a designation to be pursued. The result is that provincial governors have targeted small amounts of cultivation through eradication in an effort to achieve a poppy-free status, provoking resistance and contributing to destabilization. Nangarhar in spring 2010 is an immediate example, when an eradication campaign late in the growing season in Sherzad District in April led to Anti-Government Elements (AGEs) being invited into the district by disgruntled farmers, resulting in fighting between the Afghan National Police (ANP) and AGEs.<sup>32</sup>

### Factors Affecting Cultivation Patterns

While poppy cultivation is increasing in some areas and decreasing in others, the national upwards trend indicates that local reductions are being offset by increases in other districts or regions. For Afghan farmers, the decision whether or not to grow poppy is complex, context-specific, and driven by a combination of social, economic, and security factors.

Poppy cultivation offers the possibility of generating quick cash income, particularly in areas that lack alternative economic opportunities and general security. The importance of opium as an indispensable source of cash income for farmers’ households in poppy-growing districts is underscored by widespread resistance against eradication—from direct attacks and mine explosions to demonstrations—in the Badghis, Day Kundi, Farah, Ghor, Helmand, Hirat, Kabul, Kandahar, Kapisa, Kunar, Nangarhar, Nimroz, Uruz-

gan, and Zabul provinces.<sup>33</sup>

The extensive systems and structures in place that facilitate the opium trade convey how ingrained it is in the fabric of Afghan society. Extensive infrastructure for loans, credit, and farm-gate trade, and well-developed opiate markets make poppy growing and production of raw opium the optimal cash crop for farmers in different contexts and locations. While opium prices fluctuate, the net returns on opium remain high relative to other crops (in 2011, the ratio between gross income from opium to wheat was 11:1),<sup>34</sup> and traders tend to purchase at the farm-gate, minimizing the transport and transaction costs incurred by the farmer.

The general insecurity also contributes to the success and growth of the opium trade. Insecurity is, of course, a major problem on a national scale that reflects the government’s limited outreach, access, and functionality. It complicates even modest counternarcotics or alternative development efforts. The causes and manifestations of this general insecurity, however, cannot be reduced solely to the Taliban-led insurgency: opium production does not singularly correlate with Taliban presence.

The western region ranks second in opium production. Farah and Nimroz have particularly high levels of cultivation—but the Taliban has also been making inroads back into these provinces, which have strong anti-government elements. In the west (as well as in the north and northeast of Afghanistan), insecurity is largely fuelled by violence by and between the local strongmen, including some anti-government elements, and all sorts of informal smuggling networks. Extremely poor security in the main poppy-growing districts of Nangarhar province in the east (Sherzad and Khogyani) or in the Uzbeen valley in the central Kabul province is partly linked to anti-government elements, but not necessarily the Taliban. The minimal presence of the Taliban insurgents in the northern region has not guaranteed stability or prevented farmers from restarting poppy cultivation in some districts in 2011.<sup>35</sup> But the northern region is not without anti-government elements, particularly in Wadooj, Argi, and Darayem in Badakhshan and Sholgara, Chemtal, and Charbolak in the Balkh province.

## Alternatives to Poppy Cultivation

To reduce economic dependence on opium, the international development community and Afghan authorities have increasingly focused on strengthening and diversifying legal livelihoods. Initiatives ranged from attempts to find single-crop solutions (such as wheat, pomegranates, saffron, onions, or cotton) to more complex efforts at diversifying on-farm, off-farm, and non-farm income and building social safety nets. The effectiveness or even appropriateness of such measures heavily depends on the local socioeconomic, political, and security context.

These efforts have made some progress even in select areas of those regions and provinces that have been central to Afghanistan's opium economy—such as the south and the east—when certain factors applied. They include: relatively central locations close to urban centers; improved security; better access to markets; improved or expanded irrigation; the availability of government agricultural assistance; and access to diverse income opportunities, including non-farm cash-generating incomes. New crops have, for instance, been effectively introduced in the more fertile and accessible districts of Nangarhar. Another example is a major reduction in poppy cultivation in Central Helmand in 2008–2011, partly replaced by wheat and other crops.

While this reduction was largely stimulated by a general market-driven increase in wheat prices due to growing food insecurity, there were also other factors. A combination of crop diversification programs, growing development assistance, and increased state presence backed by upgraded government and international security support all contributed to reduction of poppy fields in areas south of the Boghra Canal, especially in rural areas close to urban centers.<sup>36</sup> However, to become sustainable, areas that have seen progress must see investment in infrastructure, comprehensive rural development, and improved rule of law and order, which should go hand in hand with the increase in overall security and functional governance at the national and local levels.

These solutions, however, are not universally sustainable, especially in more remote and less secure areas, with limited or no access to markets and income opportunities. Farmers may temporarily increase cultivation of

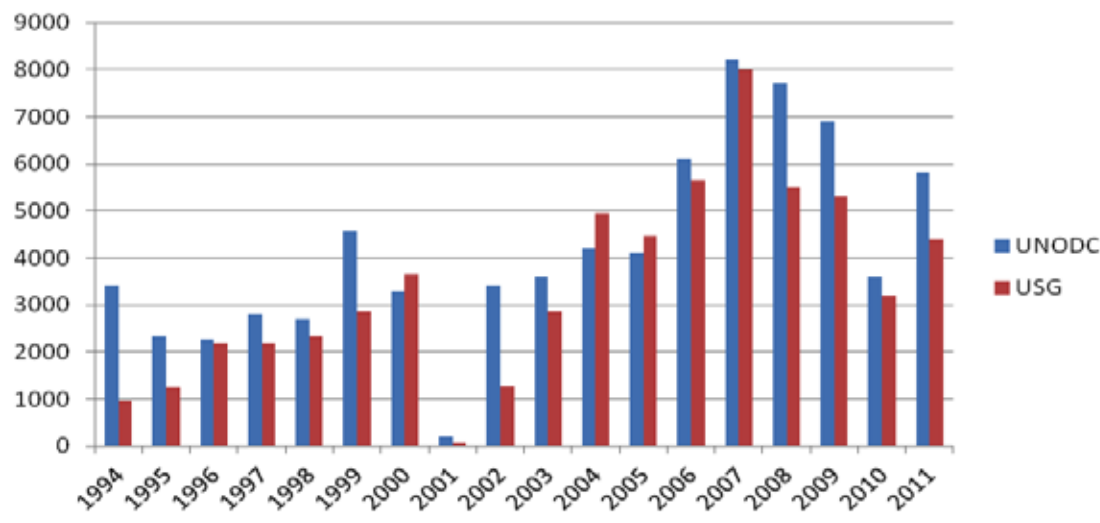
licit crops under pressure from authorities, but fail to adopt complex or sustainable crop diversification. With no other viable income sources, including non-farming opportunities, farmers typically show signs of economic distress and adopt coping strategies that undermine their future earning capacity, including reducing the quality and quantity of food consumed, delaying health expenditure, selling productive assets, and failing to meet social obligations, such as marriage costs.<sup>37</sup> Furthermore, in areas with no viable income-generating alternatives, a major decline in poppy cultivation (due to coercion, weather or other pressures) tends to create more insecurity, not less.

Afghanistan has never had as much land under irrigation as it currently does. After ISAF withdraws, the Afghan government's still fragile control of some of the poppy-growing provinces is likely to significantly weaken. This lack of state presence coupled with growing insecurity will impede licit economic opportunities and markets, while the significantly expanded arable and irrigated areas are likely to be diverted to poppy cultivation again.

Location is a key factor in determining the cash-generating strategies of farmers. Non-poppy growing households in areas in close proximity to markets, good transportation options, and with high consumer demand will have significantly more crop diversification. Where poppy has been abandoned for whatever reason, households with limited resources and without easy access to markets and transportation have to rely on non-farm income (such as wage labor and remittances) as there are simply few alternatives. The viability of non-farming, cash-generating jobs as an alternative to poppy farming is thus highly contingent on the region.

One important implication is that, on a national scale, general economic reconstruction and development, including the growth of industrial, resource, and services sectors, may provide a more viable alternative to the opium economy than select context-specific substitution strategies related to agriculture alone. Another implication points to the harsh reality that, in many areas of sustained poppy cultivation and opium production in Afghanistan, more successful alternatives to poppy than either substitute crops or licit wages are alternative illicit/informal activities such as

Initiatives ranged from attempts to find single-crop solutions (such as wheat, pomegranates, saffron, onions, or cotton) to more complex efforts at diversifying on-farm, off-farm, and non-farm income and building social safety nets.



**Fig. 3. Opium production in Afghanistan, 1994–2011**

Sources: UN Office on Drugs and Crime Afghanistan Opium Survey; U.S. Government / International Narcotics Control Strategy Report.

smuggling, including smuggling of licit commodities. Migration to cities or even emigration is also a possible alternative to poppy farming.

### **Opiate Production, Trade, and Consumption in Afghanistan**

In the 1980s and 1990s, the opium economy in Afghanistan was still largely confined to poppy growing and production of raw and dry opium. In the course of the 2000s, the full narcotics production cycle developed, from cultivation to conversion into morphine and heroin, as well as massive storage and wholesale trade at local, regional, and cross-regional levels. Drug laboratories within Afghanistan that are often clustered in border areas process a large portion of the country's raw opium into heroin and morphine base. The UNODC estimated that 42 percent of opium production in 2008–2010 was converted into morphine or heroin inside of Afghanistan. If this ratio is applied to 2011, the output of the opium economy inside Afghanistan could have consisted of 3,400 mt of unprocessed opium and 348 mt of morphine and heroin.<sup>38</sup>

Afghanistan is also the largest global producer of hashish, with estimated production in 2011 between 1,200 to 3,700 mt with a farm-gate value between 85 to 263 million USD. This reflects the growing cannabis cultivation in Afghanistan, which can sometimes even provide a higher net income per hectare than opium due to lower labor costs.<sup>39</sup>

The overall size of the opium economy in Afghanistan is best illustrated by comparing its total value with the country's licit GDP. In 2011, the farm-gate value of opium production alone was estimated at 1.4 billion USD, or 9 percent of the licit GDP (16.34 billion USD). The total net value of the opiate economy—the net exports of opiates—has been estimated at 2.4 billion USD, or around 15 percent of GDP in 2011.<sup>40</sup> Adding the net value of Afghanistan's domestic opiate consumption (which is already worth 1 percent of licit GDP), the sum of domestic market and the export value of the remaining opium for 2011 was estimated at 2.6 billion USD.<sup>41</sup> Of this amount, poppy-growing farmers earned around 1.4 billion USD. The farmers usually contributed a share of this income to the local mullah and a share to public expenditures (education, medical care, etc.). The remaining 1.2 billion USD could accrue to the criminal entrepreneurs inside Afghanistan—those involved in processing the opium, trading opium inside Afghanistan, and narcotics trafficking across the borders.

This vast amount of financial resources generated from the opium economy cannot be easily substituted by other economic activities. It also comes at a very high cost to Afghanistan. This is especially true considering the growing local demand and the domestic opiate addiction problem. In 2009, the estimated number of opiate users in Afghanistan reached 353,000 (a 59 percent increase from 2005). Of these, 233,000 were estimated to be opium users (a 52 percent increase from 2005) and 120,000 to be heroin users (a 142

percent increase).<sup>42</sup> This points to a disturbing trend of a rapidly growing number and proportion of heroin users.

Overall, in this century's first decade, Afghanistan has evolved into the country with the highest opiate prevalence rate in the world at 2.65 percent—followed by Iran with a prevalence rate of 2.26 percent.<sup>43</sup> (Russia may have the largest number of Afghan heroin users, while China has the highest absolute number of opiate users in the world.) The same data shows that more than 65 percent of opiate consumption in Afghanistan is accounted for by regions with low or minimal opium production, such as the northern (32 percent) and central areas (33 percent). However, these regional differences could be explained by survey bias—access is much more problematic in the south due to security concerns; additionally, it is possible that cultural norms make respondents less likely to admit to drug use.

In northern Afghanistan alone, opiate users consume an estimated 85 tons (mostly opium) annually, which could bring local drug traders around 50 million USD a year. Additionally, cross-border opiate trafficking from northern Afghanistan to Central Asia could bring traffickers 344 million USD. The total sum of domestic consumption and export sales of illicit opiates in northern Afghanistan for 2010 was estimated at 393 million USD, equivalent to 3 percent of Afghan GDP.<sup>44</sup>

## Illicit Drugs and Corruption

Narcotics-related corrupt practices are deeply embedded, multiple, and diverse. Those who profit from the opium business in Afghanistan include “a broad range of profiteers, at home and abroad,” including solely criminal groups and officials at different levels of government.<sup>45</sup> The U.S. government concurs with the UNODC that many Afghan government officials directly profit from the drug trade.<sup>46</sup> In many provinces, local strongmen—both in and out of government—control opium markets as well as the illicit arms trade and other criminal activities.

Opium traders operate with little fear of legal consequences and pay part of their profits directly to corrupt officials, local strongmen, and insurgent groups. Many large traffickers have themselves become public officials, pol-

iticians, and businessmen and some of them continue to be involved in the opiate business and narcotics-related corruption and money laundering.

At the local level, villagers or wealthier landowners bribe eradicators to keep their poppy crops safe; farm-gate traders pay the police to pass checkpoints on the road to the market; and owners and operators of processing facilities pay off whoever controls the area at the time. For example, field-based studies of the dynamics of the Afghan opiate economy in southern Afghanistan confirm a widespread perception that corrupt officials, especially in the ranks of the Afghan National Police (ANP) and the more recently established local police, are as heavily involved in taxing opiate trade as the anti-government elements. They are also generally blamed for illegal “taxes” and intimidation of farmers who travel by road. Predation by authorities, including ANP and especially local police, is routinely reported by communities in conflict areas, who often unfavorably compare low moral standards of government employees to those of the Taliban.<sup>47</sup>

Cross-border traffickers and precursor importers, in turn, have to pay border guards, airline operators, regional strongmen, and political officials. Profit shares from drug-trade revenues climb further up the patronage and corruption ladders, reaching higher levels of government bureaucracy, security sector, politics, and social structure. The higher the drug revenues climb, the more they get modified and diversified in the process, including through money laundering activities.<sup>48</sup>

Low levels of heroin seizure in the north have several possible explanations or contributing factors, but the common denominator is some combination of corruption and insecurity. In southern Afghanistan, the low rates of heroin seizures are linked to high insecurity caused primarily by the ongoing conflict. Due to persistent insecurity in the south, more ISAF resources have been directed there with a greater focus on interdiction by those ISAF troops. As a result, most seizures are ISAF-related.

Northern Afghanistan, however, is generally a safer part of the country despite occasional minor spillovers of cross-border violence to and from Central Asia. Nevertheless, relative to its role in processing and trafficking along

Opium traders operate with little fear of legal consequences and pay part of their profits directly to corrupt officials, local strongmen, and insurgent groups.





the Northern Route, northeast Afghanistan has one of the lowest levels of opiate seizures in the country. In 2010–2011, it accounted for just 5 percent of the country’s total heroin seizures. But because the north is more stable, there are fewer ISAF resources deployed in the north and ISAF troops there sought to limit their counternarcotics mandate, fearful that such a focus would further expose ISAF forces to attacks. The minimal seizures reported, mostly in Badakhshan, take place in the processing areas and very rarely extend to border areas or crossing points. Law enforcement on counternarcotics is particularly weak, traffickers appear to operate almost unhindered, and, as elsewhere in Afghanistan, the largest traffickers are protected by political linkages and alignments.<sup>49</sup> In northern Afghanistan, then, the facilitating role of corruption, narcotics-linked patronage networks, and the limits of ISAF deployments and mandates go a long way towards explaining the poor record of drug seizures.

While narcotics-related corruption is the most prevalent type of corruption in Afghanistan, it is connected to and carried out in the wider context of deeply embedded practices of general corruption. Afghanistan has one of the worst corruption problems in the world, tying for last place (along with Somalia and North Korea) on Transparency International’s 2012 Corruption Perception Index.<sup>50</sup>

The term “corruption” in its modern sense, understood as a rather advanced market-type relationship, does not capture the complex mix of corruption-style practices entrenched in Afghanistan, including nepotism and multiple overlapping or conflicting patronage systems run by various strongmen at both the local and national levels. While large-scale corruption involves very narrow social strata—bureaucrats and other elites—some kind of patronage system and “bakshish”-type practices affect every part of the population, from university professors to taxi drivers, from police officers to farmers. The UNODC has estimated that Afghans spend 2.5 billion USD a year on “bakshish” alone.<sup>51</sup>

Widespread corruption and patronage, however endemic and long-standing, should not be viewed as an inherent part of Afghan culture and thus immutable. Although some Afghans see “bakshish” not as a bribe but as a small sign of respect to get things accomplished more quickly, there are also surveys

showing that many Afghans are increasingly frustrated at having to pay “bakshish” for everything, such as getting a license or electricity. More generally, a mix of corruption and the more traditional patronage and “bakshish” practices is a function of a semi-traditional society and economy that has long been undergoing traumatic and painful modernization, severely distorted by decades of violence and growth of an informal economy, and remains in urgent need of comprehensive socio-economic development.

While the opium economy in Afghanistan helps farmers in a number of areas feed their families, it also earns traffickers, corrupt officials, and other strongmen major profits and threatens the future of the country as a whole. It stimulates rising domestic opiate abuse, spreads corruption, inflates currency values and real estate prices, raises the cost of doing legal business, and thereby prevents the growth of a healthy economy. The opium economy also reinforces—the perception that the government is weak and ineffectual. Finally, Afghanistan serves as a center for the larger regional opium economy and a source of opiate trafficking that dramatically affects its neighbors and other large markets, such as Russia and other states in Europe and Asia, while generating high profits for transnational criminals and money launderers.

More specifically, two risks may make the situation with Afghan narcotrafficking even worse in the near future. The first is some risk of a return to more significant poppy cultivation in northern/northeast Afghanistan. This is due in large part to an expected decrease in security post-2014. It may also partly be a market response to a previous decline in local cultivation that, until 2007, met up to half of the Northern Route opiate demand and to the depletion of local opium stocks.<sup>52</sup>

The second and more dangerous risk concerns Afghanistan’s main drug-producing southern areas. This risk highlights that after foreign security forces withdraw, the combination of the reduced state presence, the dwindling economic alternatives to opium farming and declining development assistance amidst growing insecurity and more land under irrigation may lead to an increase in opiate cultivation and production.

While the opium economy in Afghanistan helps farmers in a number of areas feed their families, it also earns traffickers, corrupt officials, and other strongmen major profits and threatens the future of the country as a whole.

“We are not criminals, we are just trying to survive. What we get from this (poppy field) is only enough for bread on our table.” — A farmer from northern Afghanistan.

# 4. Transnational Trade in Afghan Opiates and Money Laundering

The estimated annual value of the global market in Afghan opiates in 2008-2009 was around 60 billion USD.

While the extensive and deeply embedded opium economy in Afghanistan serves as the largest global source of illicit opiates, the profits and problems inherent in the drug trade have a much wider footprint. Afghans only take home a very minor share of the profits made from trading Afghan opiates. The larger profits are collected by traffickers along the transit routes and by distributors in the main consumer markets, both in transit states (such as Iran and Pakistan) and in the end-markets (such as European states, Russia or China).

Trafficking of Afghan opiates and the resulting money laundering of these proceeds are vast moneymaking enterprises, and that's where the problem lies. Trafficking routes are plagued with related problems that ensure that the effects extend far beyond Afghanistan's borders, including increased drug use, crime, violence, and the rapid spread of HIV and other diseases. Both trafficking and money laundering have corrupted governments at all levels—which then leads to second order effects on governance, security, and the economy.

Section 4 outlines the main directions and patterns of transnational trafficking of Afghan opiates, markets, and profits distribution. While only a quarter of Afghan opiates are trafficked through the so-called Northern transit route via Central Asia, this route has important specific attributes, which, given the focus of this report, deserve particular attention.

## Main Trafficking Routes, Markets, and Profit Distribution

The UNODC estimates that 92 percent of the opiates produced in Afghanistan are trafficked out of Afghanistan; the rest is consumed domestically or seized at the border. It is the trafficking and distribution that generates the largest profits along the lengthy narcotics chain. The estimated annual value of the global market in Afghan opiates in 2008-2009 was around 60 billion USD.<sup>53</sup> The profits accrued by transnational traffickers and organized crime groups that control distribution in the main consuming states are, on average, 20-25 times higher than the income that stays in Afghanistan. Afghan traffickers are heavily involved in shipping opiates across borders, especially to Iran and Pakistan, but not as much in subsequent trafficking.

Border security continues to be a major challenge throughout Afghanistan, with only 14 official border crossings under central government control. Most border areas are under-policed or not policed at all, making them particularly susceptible to cross-border trafficking.

Currently, the main opiate trafficking routes out of Afghanistan run, in order of size of traffic flows: (a) through Pakistan to China, other Asian states, Iran, the Middle East, and Africa; (b) through Iran via Turkey to Western Europe; (c) through Central Asia to Russia along the Northern Route.

## Pakistan and Iran

Since the 1980s, Pakistan and Iran have been the two main transit countries for opiates and hashish originating in Afghanistan. It is estimated that about 75 percent of Afghanistan's trafficked opiates leave through Pakistan and Iran; the rest leave via the north.

Pakistan is an old narcotrafficking corridor and one of its western branches has long served as a transit corridor that later joins the "Balkan route" to Europe via Iran and Turkey. By 2009–2010, this flow became the largest one: in 2009, approximately 44 percent (or 160 mt of the 365 mt) of Afghan heroin trafficked out of the country transited Pakistan.<sup>54</sup> The Afghan-Pakistani border has just three official crossings, and the border is not formally recognized by the Afghan government or by the Pashtu and other tribes on either side of the border. Pakistan also remains a minor producer of opiates from illicit crops grown in areas along the border with Afghanistan. Finally, the majority of precursors are imported into Afghanistan from Pakistan, with minor shares also coming from China, India, and Central Asia.

Many of the problems that Pakistan faces as a transit country are similar to those faced by Afghanistan. In the northwest of Pakistan, especially in the Federally Administered Tribal Areas (FATA), the on-and-off counterinsurgency campaign takes priority for the government, absorbing much of its security resources and downgrading counternarcotics to a secondary task. This region lacks basic security and state access to border areas, particularly in the northwest, where there is widespread violence and corruption. Those factors, along with existing land and maritime transportation infrastructure, create favorable conditions for trafficking, storing, and refining opiates. Recently, there has been a disturbing increase of direct maritime trafficking of Afghan opiates from the Pakistani ports to Europe. Part of that traffic moves further through the European ports, some reaching as far as the northern ports of Russia. In addition to its main supply of Afghan heroin from Central Asia in the south, Russia now faces a minor additional inflow from the north.<sup>55</sup>

In 2009, over 31 percent of exported heroin left Afghanistan via Iran and continued along the Balkan route—the shortest way to con-

sumers in Europe. Some opiates are also trafficked via Iran to Central Asia and via Turkmenistan to Iran. The Iranian transit route has two specific characteristics. First, while most heroin continues onward to Turkey and Europe, a large share of Afghan opium is consumed in Iran, contributing to Iran's extremely high rate of opiate addicts—second only to Afghanistan. Second, in contrast to Afghanistan, Pakistan, and most Central Asian states, Iran invests massive efforts in its robust and pro-active enforcement-and interdiction-centered counternarcotics policies, especially along its border with Afghanistan. As a result, Iran seizes more illicit opiates than any other country in the world—in 2010, it seized eight times more than all other countries' opium seizures combined.<sup>56</sup>

### Central Asia: the Northern Route

In 2009–2010, approximately 25 percent of heroin from Afghanistan<sup>57</sup> was smuggled through the Northern Route to and through Central Asia. This amounts to 90 mt of heroin, some of which is consumed in Central Asia. More than three quarters, however, reaches the Russian market.<sup>58</sup> In addition, 35–40 mt of opium are trafficked to Central Asia, mostly for domestic consumption.

Opiate trafficking along the Northern Route via Central Asia can be split into two main stages. The first stage involves cross-border transit from Afghanistan. Payment is usually in cash or, in some cases, the parties barter in cars and arms. Once opiates cross the border, some, especially those that cross the Afghan-Tajik border, are trafficked onwards in the original Afghan lab packaging, at times found as far as Russia. Others are repackaged—and often stored—in border areas and in major redistribution centers (such as the city of Osh in Kyrgyzstan).

At the next stage, the traffickers make the best use of the practically borderless and visa-free regimes between countries of the region and Russia, the mainstream transport infrastructure, especially the road and railway systems, the weak economies, limited functionality of governance, and poor social conditions in the Central Asian states. An analysis by UNODC-affiliated Almaty-based Central Asia Regional Information Coordination Center (CARICC) estimates that 70–75 percent of opiates that cross Central Asia are transported by road, in trucks and cars,

The main opiate trafficking routes out of Afghanistan run, in order of size of traffic flows: (a) through Pakistan to China, other Asian states, Iran, the Middle East, and Africa; (b) through Iran via Turkey to Western Europe; (c) through Central Asia to Russia along the Northern Route.

The majority of Afghan opiates trafficked through the Northern Route initially passes through Tajikistan. Transit through Tajikistan amounts to 85 percent of the total opiate flow through Central Asia.

through Kazakhstan to adjacent regions of the Russian Federation. Transit by rail and air accounts for another 15–25 percent, and there has been an increase in the use of rail transportation for trafficking. Eight to ten percent of the Afghan heroin reaching Russia is trafficked by air, mainly from Tajikistan. The price differences between Central Asian transit markets and the wholesale market in Russia are significant: 1 kg of heroin worth 4,000 USD in Tajikistan costs at least five times more in Russia.<sup>59</sup>

At each transit stage from the Afghan border to Russia, trafficking involves many players of different sizes and capacities. They range from fragmented, small, often family/clan-based groups to larger and better-organized criminal operations able to move large shipments, often with the cooperation of corrupt officials.

While some broad generalizations can be made regarding the main patterns of the Afghan opiate trafficking through Central Asia, it is important to differentiate between the countries of the region. Country specifics and even regional variations at the subnational level are significant—in terms of the size of trafficking and profits, organization of trade, direction of flows, and interdiction levels.

The majority of Afghan opiates trafficked through the Northern Route initially passes through Tajikistan. Transit through Tajikistan amounts to 85 percent of the total opiate flow through Central Asia.<sup>60</sup> In northern Afghanistan, most laboratories are concentrated in areas along the Tajik border. The trafficking situation at the Afghan-Tajik border remains a major concern, especially after the withdrawal of Russian border guards from that border in 2005.

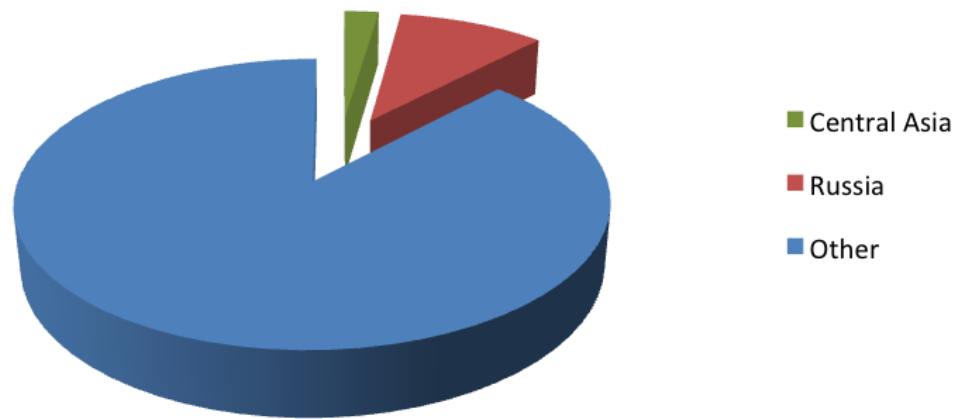
Russia has sought to reintroduce Russian border guards on the Tajik-Afghan border, a move that, for now, Tajik President Emomali Rahmon opposes. Much of the trafficking passes through the Panj River, including almost open drug trade on some of the border islands. The volume of drugs passing through Tajikistan suggests that traffickers are using official crossing points such as the Nizhny-Panj Bridge. Overall, Tajikistan seizures account for no more than 2 percent of Afghan opiates that are trafficked through its territory.<sup>61</sup> Security agencies in Tajikistan have been chronically reluctant or unable to arrest and

prosecute high-level drug smugglers.

Opiates that cross the Afghan-Tajik border are then consolidated in trafficking hubs, especially in Dushanbe, and trafficked westward into Uzbekistan and northward to Kyrgyzstan, with a small portion trafficked to Russia directly by air. A smaller, older opiate route to Osh (Kyrgyzstan) runs eastward through the remote Gorno-Badakhshan Autonomous Oblast, which is largely outside government control. Kyrgyzstan has poor border controls and has experienced the highest levels of political instability in the region in the first decade of this century. It remains the main route for Afghan opiates trafficked through Tajikistan. Most of the opiates first reach the southern Batken province from where they are mainly trafficked north to Kazakhstan (from where they continue on to Russia), while some are also exported from Kyrgyzstan to China. Opiate seizures along the Kyrgyz borders are almost negligible and the total seizures reached their lowest point in seven years in 2010.<sup>62</sup>

In contrast to Tajikistan and Kyrgyzstan, Uzbekistan has built a more efficient border control system. This has been facilitated in part by the relatively short border with Afghanistan—all 137 kilometers of which are double-fenced—as well as a robust and relatively functional security sector and the government's heightened concern about any potential spill-over of instability from Afghanistan as well as from neighboring Central Asian states. The main border crossing at Hairaton Bridge over the Amu Darya River, which is the busiest transportation hub along Afghanistan's northern border, has a heavy security presence. Most smuggling, then, takes place at illegal border crossings and with necessarily smaller amounts than can be shipped via road. Uzbekistan has the highest interdiction rate in the region—the UNODC estimated the interdiction rate at over 10 percent in 2010, which also marked a 25 percent increase that year.<sup>63</sup>

Turkmenistan is in many ways a stand-alone case and an exception from the main patterns and dynamics of the Northern Route trafficking. Thanks to its unique position and sizeable borders with both Afghanistan and Iran, Turkmenistan has evolved as an important subsidiary branch of the major westward trafficking corridor from Afghanistan to Iran and onwards along the so-called Balkan route. As



**Fig. 4. Profit distribution in the global heroin market**

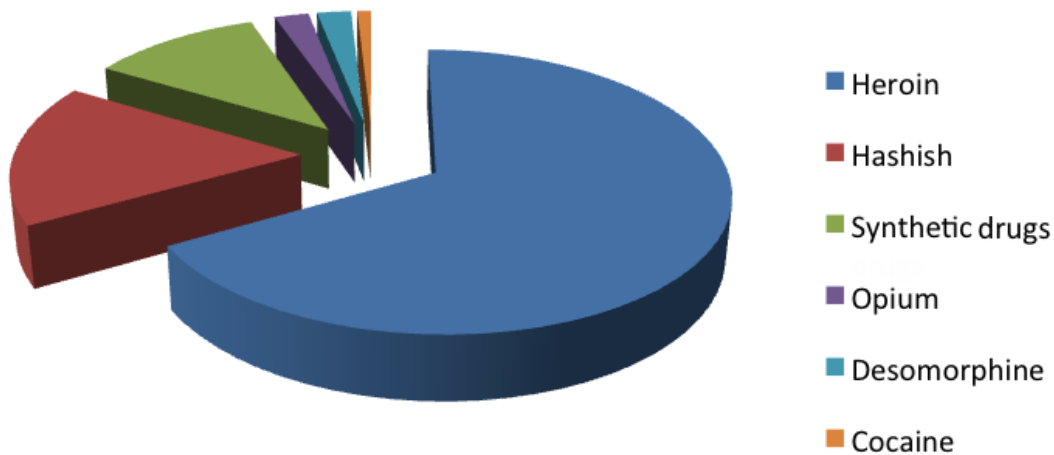
mentioned above, Iran has the strictest border controls system in the region at the Iranian-Afghan border. For traffickers, one way around that border is the long remote and poorly guarded Afghan-Turkmen border into Turkmenistan and then to Iran.

According to the UNODC, the net profit from heroin trafficking to Russia made by traffickers in Central Asia in 2009 was 1.4 billion USD.<sup>64</sup> This is comparable to estimated profits from the opiate trade received by all traffickers in Afghanistan in the same year (1.2 billion USD). While Central Asian countries are starting to diversify their economies, the role of narcotics trafficking as the source of illicit cash income, especially in Tajikistan and Kyrgyzstan, remains huge. On a regional scale, it is only exceeded by remittances sent by migrants working in Russia and Kazakhstan, estimated to reach 2.4 billion USD in 2010.<sup>65</sup> Either of these informal sources of revenues far outmatches the volume of foreign aid and may be comparable to the volume of formal external economic investment in the region (for instance, by China or Turkey). In contrast to drug profits in Afghanistan where farmers may garner over half of the net profit from opiate production, it's the traffickers, corrupt officials and other powerbrokers who collect most of the profits from Afghan opiates transit in Central Asia. Narcotics-related corruption is widespread in the region, and laws that cover it are not well enforced.

One disturbing development emerging from the Northern Route opiate trafficking figures noted by UNODC is a mismatch between the relatively stable volume of drugs that enter the Russian market from this direction and a significant drop in seizures of opium and heroin in all Central Asian states except Uzbekistan. In 2010 overall regional seizures of opium declined by 36 percent while heroin seizures fell by 25 percent. Altogether, Central Asian countries seized less than 3 percent (or 2.6 mt) of heroin trafficked through the Northern Route in 2010.<sup>66</sup>

There is a lack of precursor seizures, which partly reflects the main focus of the interdiction efforts by the states of the region on opiate-related imports, not exports. Explanations for declining seizures in Central Asia range from changing trafficking patterns, such as their increasingly fragmented and discreet nature, or a decline in opium interdiction, or reductions in poppy cultivation in northern Afghanistan since 2007 and the subsequent depletion of existing opium stocks. Drops in opiate seizures may also suggest weakening interdiction capacity and growing narcotics-related corruption across the region, a trend that Russia points to as indicative of a decline in Tajikistan's border interdiction capacity. This occurred after Tajik border troops began guarding the Afghan-Tajik border in 2005. There are two other more fundamental explanations of this confluence of large-scale stable trafficking with declining seizures.

Sources:  
UNODC, 2011;  
FSKN, March  
2012.



**Fig. 5. Hard narcotics market value in Russia**

Source:  
FSKN data  
disclosed in  
March 2012

The first one is related to the region's developing transport infrastructure that links it more closely to both Afghanistan on one end, and to Kazakhstan, Russia, and China on the other. This infrastructure both facilitates and reflects the expanding regional trade. In general, these are very welcome processes that expand economic cooperation and spur socio-economic development in the region. At the same time, these new, upgraded and planned road and railway networks are—and will be—increasingly utilized by traffickers to blend into the licit goods flows, improve logistics, increase undetected shipments, and facilitate access to markets. Examples include the newly built Hairaton-Mazar-i-Sharif Railway, which will link Turkmenistan with Kazakhstan and Iran, and an agreement between China, Kyrgyzstan, and Uzbekistan calling for a regional rail line connecting the three countries.

Second, it may be more accurate to point to a growing gap between expanding trade and transportation possibilities and limited state security capacity across Central Asia, including inter-state cooperation on counternarcotics and border control, than to suggest universal decline in interdiction capacity. More specifically, cooperation on counternarcotics, customs, and border controls between Central Asian states lags far behind increased economic cooperation between Central Asian

states and Afghanistan, between Kazakhstan and the rest of Central Asia, and between the region and Russia. National border, customs, and counternarcotics security systems in the region are largely developed in isolation.

Russia is the main final destination of the Afghan heroin trafficked through the Northern Route. It is estimated to be one of the largest single markets for heroin likely with the largest total number of heroin users in the world (see Fig. 1).<sup>67</sup> According to FSKN estimates, the Russian heroin market value is 6 billion USD.<sup>68</sup> If the global heroin market is 61 billion USD, as the UNODC estimates,<sup>69</sup> then the Russian market alone makes up almost 10 percent of the global heroin market. If we add the Central Asian heroin market to the mix, which has been estimated at 1.4 billion USD, the Northern Route alone could account for some 12 percent of the global heroin market. Heroin is the main source of profits and the largest drug market in Russia, followed by 1.5 billion USD worth of hashish (also primarily of Afghan origin) and 1 billion USD worth of synthetic drugs. By comparison, opium, desomorphine, and cocaine account for 200 million, 100 million and 80 million USD of drug profits, respectively (see Fig. 5).<sup>70</sup>

Large criminal networks do not monopolize opiate trafficking into Russia; it also involves many smaller and more segmented groups,

often ethnic and/or clan-based. In the western hemisphere, transnational organizations traffic drugs and control distribution inside the United States. However, in Russia, the traffickers who bring in the Afghan heroin and hashish from Central Asia are not necessarily the broader criminal networks who control wholesale and retail drug trade in Russia's domestic market, extracting the largest profits. It is extremely difficult to undercut Russia's fragmented system due to its fluid and multifaceted nature.

While the heroin flow into Russia has stabilized at a relatively high level since 2009-2010, there is a risk that, in the coming years, opiate and hashish trafficking from Central Asia may increase. The main risk factor is that the customs union between Russia, Kazakhstan, and Belarus means fewer border controls for traffickers to negotiate. This agreement gives a powerful impulse for regional socio-economic development, but effectively Kazakhstan's southern border is now the southern entry point to Russia. And Kazakhstan still lacks strong border management capacity. Any potential further extension of the Customs Union to other Central Asian states, such as Kyrgyzstan and perhaps Tajikistan, would only aggravate the already huge challenges for border control, interdiction of drugs, other smuggled goods, and general counternarcotics.<sup>71</sup>

All this underscores the critical role of—and specific counternarcotics pressures on—Kazakhstan. Kazakhstan's interdiction capacity is currently the lowest in Central Asia. The surprisingly low number of seizures, compared to the size of traffic, may reflect anything from the vast trafficking opportunities offered by the country's large territory, porous borders, and developed transportation system to the well-organized nature of narcotics trafficking and significant narcotics-linked corruption. At the same time, Kazakhstan has a much healthier economy and more functional state institutions than the rest of the region. As a guardian of the southern border of the Customs Union, it is well-positioned to become the central actor in regional counternarcotics cooperation. It is not surprising that Kazakhstan hosts the UNODC-affiliated Central Asia Regional Information Coordination Center (CARICC), joined by Russia in March 2011. The UNODC/CARICC format is supplemented by several other regional cooperative efforts led by Russia, and, to some extent, China

and Kazakhstan. These initiatives range from the more narrowly counternarcotics-centered Central Asia Counternarcotics Quartet that includes Tajikistan, Russia, Afghanistan, and Pakistan, to counternarcotics initiatives by larger regional organizations. Those include the bi-annual interdiction-centered Operation Kanal (Channel) organized by law enforcement agencies of the member-states of the Collective Security Treaty Organization (CSTO). The Shanghai Cooperation Organization (SCO) adopted its own Anti-Narcotics Strategy for 2011–2016 and is about to create its counternarcotics structure.

U.S. attention to the problem of Afghan narcotics trafficking via Central Asia increased with its strategic interest in securing a stable military logistics supply corridor to Afghanistan from the north (the Northern Distribution Network or NDN), as supply routes to U.S. and NATO forces running through Pakistan were becoming increasingly dangerous and unstable and subject to the ups and downs in the U.S.-Pakistan relationship. In 2012, the U.S. Department of State proposed a 4.2 million USD Central Asian Counternarcotics Initiative to support Central Asian counternarcotics efforts, focused on disrupting the narco trafficking and encouraging these countries to participate in the work of the Northern Route Working Group established by the DEA.

However, most U.S.-led (or EU-led) drug control and counternarcotics initiatives in Central Asia tend to develop parallel to, rather than in coordination and cooperation with, those existing regional efforts where Russia plays a lead role. Indeed, the UNODC-affiliated CARICC remains the main regional cooperative framework with both U.S. and Russia's participation. This reflects the persistent low level of trust regarding each other's interests and presence in the region and the widespread perceptions on both sides of the NATO–SCO/CSTO strategic rivalry in Central Asia.

While the heroin flow into Russia has stabilized at a relatively high level since 2009-2010, there is a risk that, in the coming years, opiate and hashish trafficking from Central Asia may increase.

## Money Laundering

Money laundering is a critical aspect of drug trafficking—after all, earning vast profits is the very reason traffickers engage in smuggling. Even as the heroin market in Russia accounts for just about 10 percent of the global market in the Afghan opiates, it could be assumed to involve a significant scale of narcotics-related money laundering. U.S. interests may also be affected less directly—when proceeds from Afghan narcotrafficking are laundered through the international and U.S. financial systems. The United States has decades of experience fighting financial crime, and while there is a long way to go, it might support Russian efforts to track, seize, or freeze illicit narcotics proceeds. Combating money laundering is thus an area where the United States and Russia can and should cooperate.

Laundering of drug money is one of the most transnationalized forms of narcotics-related activity, and the money flow may take a different trail than the drug flow. The laundering of proceeds from Afghan opiates takes place on a different scale, both in and outside producing, transit, and consumer countries. While the largest profits in the opiate trade are made in consumer countries, hubs for laundering these profits include states that are not producers, major transit countries, or consumer countries. States that are regional financial centers like the UAE are thus also drawn in to Afghan narcotrafficking.

One of the main hurdles in combating the drug-related money laundering is the complexity of drug-related financial transactions. This makes it difficult to distinguish between the proceeds of narcotics trafficking from those of other serious crimes. Additionally, in less developed and developing countries in particular, money-laundering activity extends beyond banks and traditional financial institutions to other non-financial businesses and professions and alternative money and value transfer systems. This is well illustrated in Afghanistan, as well as its neighboring states.

### **Afghanistan and Narcotics-related Money Laundering**

In the past decade, Afghanistan's financial system evolved into a mix of modern globally connected and traditional unregulated mechanisms. Afghanistan has developed a

financial sector that is relatively small, but rapidly expanding and well connected to the world, with banking relationships with financial institutions in several countries.<sup>72</sup> Yet, rudimentary financial relations prevail, such as a cash-based economy, low rate of financial intermediation, illiteracy, problems with establishing identity, prevalence of traditional payment, and informal money transfer systems. Less than 5 percent of Afghans use banks, depending instead on the entrenched and convenient “hawala” system. This system has many legitimate uses such as enabling financial activity despite continuing security challenges, compensating for the lack of banks in rural areas, and facilitating the inflow of remittances, which serve as one of major cash-based incomes.<sup>73</sup> Up to 90 percent of financial transactions run through the “hawala” system, including foreign exchange transactions, remittances, funds transfers, and micro- and trade-finance.<sup>74</sup> While the “hawala” system and formal financial sector are distinct, “hawaladars” often keep accounts at banks and use wire transfer services to settle their balances with “hawaladars” abroad.

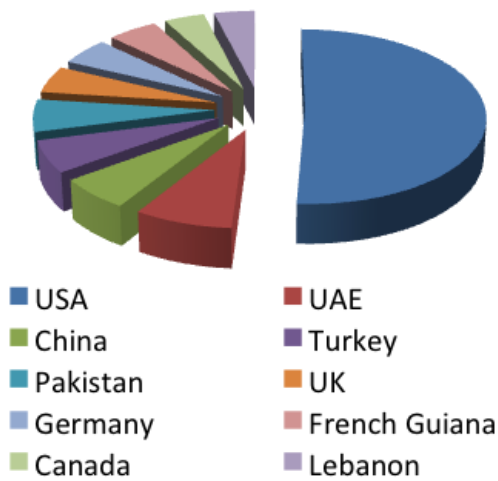
While this mixed system evolved naturally to meet the country's socioeconomic and development needs, it also created exceptionally favorable conditions for the laundering of proceeds from informal economic activities at the regional and international levels. The following three main factors make Afghanistan a particular problem as a source of money laundering.

First, Afghanistan is the largest producer and exporter of opiates in the world and the center of the regional shadow and opium economy. Illicit drug-related activities (including production and trade in opiates and other drugs and related precursors, operating narcotics infrastructure, and narcotics-related corruption) make the country prime territory for money launderers. Other sources of illicit revenue and laundered funds are general corruption, contract frauds, smuggling and protection payments for legal and illegal movement of goods, and kidnapping.<sup>75</sup>

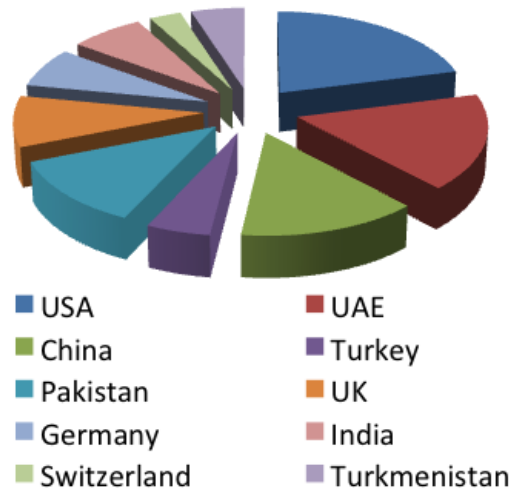
Second, for unlicensed and unregulated “hawaladars” with cross border relationships, the absence of a strong supervisory framework presents particularly favorable opportunities for both laundering proceeds from Afghan opiates and other illicit revenues and for region-wide cash smuggling (e.g. from

Laundering of drug money is one of the most transnationalized forms of narcotics-related activity, and the money flow may take a different trail than the drug flow.





**Fig. 6. Top ten countries with wire transfers into Afghanistan, 2010**



**Fig. 7. Top ten countries with wire transfers out of Afghanistan, 2010**

Pakistan to Dubai due to strict exchange control restrictions in Pakistan).

Third, due to high levels of foreign donor assistance and security spending (286.4 billion USD, or 9,426 USD per Afghan citizen, from 2001 to 2011), formal financial flows to and from Afghanistan are very high in comparison with countries of similar low GDP per capita. These inflows, along with illicit financial flows from the narcotics trade, have stimulated sales of domestic goods and services to non-residents and contributed to a buildup of international reserves and a stronger Afghani.<sup>76</sup> The corruption potential from the inflow of donor aid should not be overlooked, especially since the amount of donor assistance spending dwarfs that of the estimated export value of opiates at 2.4 billion USD per year.

There are three main methods of transmitting narcotics-related money for laundering purposes: in cash using couriers, by sending cash through alternative remittance bankers ("hawala"), or via banks and other financial institutions. Money laundering in and out of Afghanistan is primarily cash-based. Drug profits inside the country may be reinvested in sections of the licit economy, such as real estate, goods or expensive vehicles. Some

of this capital also goes directly or indirectly towards financing further drug shipments, which perpetuates the vicious cycle. In contrast, narcotics-related money that leaves the country usually does not enter Afghanistan's licit economy. Afghan Central Bank data show that in 2011 4.6 billion USD was taken out of the country through Kabul's airport alone, double the 2.3 billion USD that was taken out of the country in 2010. This massive amount, however, does not reflect the actual extent of cash fleeing the country.<sup>77</sup> This amount is also larger than the Afghan national budget and is thought to equal one-fourth of the economy.<sup>78</sup> (The Afghan government has recently placed a 20,000 USD cap on cash that can be physically taken out of the country.)

A large illicit economy has a tendency to distort the commercial economy. Drug profits tend to inflate the currency value; traffickers use narcotics-related profits to import luxury and other goods, which they then sell on the domestic market. The biggest risk is that trade-based money laundering (mispricing of licit goods to move drug profits) makes it hard for legal businesses to compete. A risk for Afghanistan is that its economy could become completely dependent on the illicit economy. One way to help identify the main destina-

Source: Financial Reports and Analysis Centre of Afghanistan (Fin TRACA).  
The total amount of wire transfers Afghanistan received in 2010 from 10 countries was over 1.21 billion USD; the amount of wire transfers sent to the top 10 countries was over 1.15 billion USD.

tions and financial hubs for laundering narco-trafficking profits—as well as corruption of aid monies—is to examine the limited data on the money inflows and outflows to and from Afghanistan. Afghanistan’s financial intelligence unit (Financial Reports and Analysis Centre, or Fin TRACA) conducted a comparative analysis of the amounts received through wire transfers in 2010. It shows that the United States, Canada, and Turkey send more than they receive, which logically reflects the flows of economic and security aid and remittances into Afghanistan. In contrast, the UAE, Pakistan, China, the UK, and India receive more funds from Afghanistan than they send (while Switzerland and Turkmenistan do not send anything, but still receive some money transfers).<sup>79</sup> Such dynamics can hardly be explained by trade or economic relationships alone. Importantly, the picture gleaned from data on formal money flows is incomplete. It does not include Iran, which has well-developed financial relations with Afghanistan that are mostly outside the legal framework, or the Central Asian states.

The underdeveloped legal and other institutional mechanisms, along with the low level of functionality and legitimacy of the Afghan government coupled with a high prevalence of corruption, minimizes the capacity and willingness of authorities to investigate financial crimes. The parliament has not endorsed the 2004 presidential decrees on anti-money laundering and combating the financing of terrorism. If narcotics-related money laundering is investigated at all, it is only done in a handful of cases linked to terrorism financing (with no convictions).<sup>80</sup>

The government dismissed the only case successfully linking money laundering to terrorism by Afghanistan’s financial intelligence unit; no one has been tried or convicted. No proceeds of drug trafficking have been confiscated in any of the 600 reported cases of counternarcotics convictions. In addition, a wide range of criminal activities that are often linked to drug trafficking—such as trafficking of arms, stolen goods, and people or participation in organized crime—racketeering and extortion, are not even criminalized in Afghanistan. The country is not on the “black” or “dark-gray” lists of the most problematic jurisdictions identified by Financial Action Task Force (FATF)<sup>81</sup>—but it is on the so-called FATF “gray list.” FATF has noted the steps Afghanistan has taken since its June

2012 commitment to address its deficiencies in anti-money laundering (AML) and counter-terrorist financing (CFT), but reaffirmed that strategic AML/CFT deficiencies remain.<sup>82</sup>

### **Laundering Drug Profits from Transit States**

The chief destinations of declared cash flows from Afghanistan (about 1 billion USD a year) are the UAE and other Gulf countries. With expatriates from the region accounting for up to 85 percent of its residents, the Emirates is a major international banking and trading center for licit economic activity in the Gulf, Southwest Asia and East Africa. For decades, though, it has also played the role of the main financial hub for the smuggling-based, regional-shadow economy comprised of Iran, Afghanistan, and Pakistan. The main types of financial crime in Dubai and the UAE are money laundering and fraud in the global financial sector. The main portion of the money laundering is linked to proceeds from Afghanistan’s illegal narcotics.

In most cases, narcotics-related money laundering operations are similar to those of money laundering in general. But some characteristics of the drug business lead to preferences for certain money laundering techniques over others. The most common are real estate purchases; followed by the trading in transportation, particularly expensive cars; bank deposits; the establishment of shell companies and projects; and wire transfers. Equally popular are stock trading, trading in precious movables, and cross-border fund transfers. These techniques may and often do overlap. In most cases, the suspect starts with shell projects or the purchase of real estate and cars and invests or sells them as a cover to justify bank deposits and transfers.<sup>83</sup>

In the UAE, groups operating outside the Gulf, in regions from Southwest Asia to Europe and the Middle East, control the narcotics-related funds.<sup>84</sup> A case in point is the New Ansari Money Exchange, designated, along with affiliated individuals and entities, as a major money-laundering network by the U.S. Department of Treasury under the U.S. Foreign Narcotics Kingpin Designation Act in February 2011. The U.S. government believes that this network of individuals, money exchange houses and other businesses, operating throughout Afghanistan and the UAE, has laundered large-scale narcotics profits from

The chief destinations of declared cash flows from Afghanistan (about 1 billion USD a year) are the UAE and other Gulf countries.

the billions of dollars it transferred in and out of Afghanistan between 2007 and 2010.<sup>85</sup>

Pakistan's weak control of the border with Afghanistan combined with its active formal and informal financial flows, make it a hub for both trafficking opiates and other illicit and licit Afghan goods to international markets and for laundering the profits (though charities, "hawaladars," money exchanges, bulk cash smuggling, and real estate).<sup>86</sup> The fact that Pakistan relaxed many of its financial regulations, in particular for its stock markets, and made large cash deposits to banks in the tribal areas has also complicated financial investigations in Afghanistan.

The Iranian government has strongly emphasized counternarcotics and established, in cooperation with the UNODC, a national financial intelligence unit. Nonetheless, Iran remains a major point of concern. Although Iran is not a financial hub, the sheer size of its underground economy, estimated capital flow, large expatriate community, and absence from any FATF-style regional body position it to be a significant laundering center.

An indication of the possibly deteriorating situation of narcotics-related money laundering at the regional level is the fact that all three top transit countries for Afghan opiates—Pakistan, Iran, and Turkey—are on FATF lists of concern, with Iran on the "black list" (a distinction it shares only with North Korea) and Pakistan and Turkey on the "dark-gray list."<sup>87</sup> The specific vulnerability of Turkey to drug-related money laundering is that it serves both as a major transit country for Afghan opiates and as an important regional financial center. This is particularly true for the Central Asian states located along the Northern trafficking route, but also for the Caucasus, the Middle East, and Eastern Europe.

In contrast to Pakistan, Iran, and Turkey, the Central Asian states are conspicuously absent from the list of states of primary concern in the U.S. government's 2011 List of Major Money Laundering Countries and FATF's "black" or "dark-gray" lists (as of 2012). This may be due to the respective countries' weak financial systems, low levels of integration into the global financial system, and limited access to major international financial and trade centers. While Central Asia has a deceptively low profile in international narcotics-related money laundering, it has high lev-

els of domestic narcotics-related corruption and some of the world's worst general corruption levels throughout region (with Turkmenistan and Uzbekistan sharing 170th place in the 2012 Corruption Perception Index, and Tajikistan, Kyrgyzstan, and Kazakhstan occupying the 157th, 154th, and 133rd spots, respectively). This combination may indicate that drug-related money laundering activities are still largely confined to the national and sub-regional level and have not yet acquired a broader transnational dimension.

### **Money Laundering in Consumer States**

In all of the large consumer end-markets for Afghan opiates—Europe, Russia, or Asian states such as China and India—narcotics trafficking and wholesale and retail distribution are major sources of illegal proceeds for money laundering. Financial hubs in these countries may also serve as links in the longer money laundering chains that originate directly from Afghanistan or run from and through intermediaries in Pakistan, the UAE, etc. For example, in the UK, where the opiate market is heavily dominated by heroin and Afghan opium, narcotics revenues remain the main source for money laundering. The country's special role in global finance combined with the size and diversity of its financial markets makes it particularly attractive to the money laundering networks—whether drug profits or corruption of aid monies are being laundered.

Some important distinctions make Russia stand out for its money laundering potential among other large consumer markets for Afghan opiates. Large-scale financial transactions in Russia are primarily associated with its own vast natural resources, which also dominate the money-laundering scene. Typical schemes involve the misuse of foreign financial and legal entities, investments in real estate or security instruments, and buying luxury consumer goods.<sup>88</sup> Against this backdrop, narcotics-related money laundering may be relatively significant, but remains just one of several types of money laundering. When compared to countries on an equivalent level of development, Russia displays much higher levels of corruption (133rd place in the 2012 Corruption Perception Index) and organized crime. Considering the country's porous borders and visa-free regime with Central Asia, its large opiate market, and the dominance of heroin in opiate abuse, there is

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much potential for narcotics-related money laundering.

Some of the money laundering vulnerabilities and restraints common for most large consumer markets for Afghan opiates also apply to Russia. Moscow and Saint Petersburg are gradually evolving as major international trade and financial hubs, creating the need for the Russian government to further improve the anti-money laundering legal and enforcement framework. As a result, in the past decade Russia became a member of FATF, took a series of measures that helped to get it removed from FATF lists, and expanded the investigative powers of its financial intelligence unit, Rosfinmonitoring (with prosecutions and convictions for money laundering offenses reaching 141 and 113, respectively, in the first half of 2011). Russia also plays a lead role in the Eurasian Group on Combating Money Laundering and the Financing of Terrorism (EAG) that includes all Central Asian states.

As the case of the UK shows, it would be an oversimplification to view the scale of narcotics-related money laundering as directly related to the size of the market or link it primarily to consumer end-markets. These markets may bring higher profits to organized crime groups engaged in narcotics trade, but also have their own specific constraints. First, in the past few years, banks and mainstream financial institutions have tightened their controls and increased their vigilance, in part due to the new security pressures related to the international campaign against terrorism. Second, in a more sophisticated and diversified financial system, illicit drug revenues are increasingly overshadowed by the growing proceeds from other offenses, such as financial fraud and the smuggling of people and goods. Third, while end-markets for opiates tend to have a more developed, and in some cases, extremely developed financial infrastructure involving incomparably larger money flows than in the producing or first transit states, traffickers face much tougher financial and security controls, as well as more effective policing and law and order systems. For example, in the UK, over 2,400 money laundering criminal prosecutions and more than 1,400 convictions took place in 2009 alone—compared, for instance, to zero such convictions in Pakistan.<sup>89</sup>

By early 2009-2010, the heroin flow through the Northern Route from Afghanistan via Central Asia to Russia had stabilized. However, there is a risk that, in the coming years, the opiate and hashish trafficking from Central Asia may

increase. The fundamental risk factors are the widening gap between the region's growing trade connections and developing transport infrastructure and weak border controls, counternarcotics capacity and declining opiate interdiction levels in most Central Asian states. The challenges created by this disparity will be particularly acute for Kazakhstan, as its southern border has now become the external border of the vast free-trade space that includes its Customs Union partners, notably Russia.

The widening possibilities for traffickers along the Northern Route through Central Asia may be exacerbated by several risk factors that could favor a short- to mid-term increase in opiate production in Afghanistan. If this happens, the threat posed by Afghan narcotrafficking to Russia, as the main destination market for the Northern Route trafficking and one of the largest end-recipients of Afghan heroin, may increase. Furthermore, the worst-case scenario may have implications beyond Central Asia and Russia, and may even reorient part of the Balkan trafficking route to Europe.

As noted above, heroin traffickers along the Northern Route made some 1.4 billion in profits in 2009 supplying heroin to Russia and Central Asia, and combined with the estimated 6 billion USD Russian market this accounts for some 12 percent of the global heroin market (see Fig. 4). The remaining profits from the global heroin market are distributed between transit and consumer states in other parts of the world or are laundered through the global financial system. The growing focus on the money trail helps stimulate international cooperation on counternarcotics and correct the supply-demand imbalance in drug control, including in the more supply-centered counternarcotics strategies of both the United States and Russia.

The broader money laundering implications of transnational trade in Afghan opiates provide an additional reason for Washington's concern about the larger issues raised by Afghan narcotrafficking, rather than just the role of drug money in funding the insurgency in Afghanistan. As shown by the case of the New Ansari Money Exchange, the proceeds from the Afghan opiate trade may be laundered in Dubai and then transferred through the United States and other international financial systems. This illustrates how ubiquitous the effects of the Afghan narcotrafficking are, as neither the UAE nor the United States are primary trafficking routes or major consumer markets for Afghan opiates.



An opium dealer, top, hands Javed, an Afghan opium addict, drugs in the terrace of the bombed-out ruins of the former Russian Cultural Center in Kabul.

# 5. Illicit Drugs, Armed Conflict, and State Functionality

In addition to drug revenues for self-financing, the insurgents' involvement in protection of cultivation of drug crops, especially in the absence of cash-generating income alternatives, may become a way to link the local population to the insurgency.

The illicit drug business is linked to armed violence in two main ways. First, it may generate criminal violence directly, in both peacetime and conflict settings. Traffickers are often armed and trafficking organizations either have armed guards or hire armed groups, sometimes amounting to private mini-armies, to protect them, attack police and other security forces. Traffickers engage in violent turf wars among themselves and resort to violence against civilians. Among the most intensive forms of such criminal violence are trafficking-related cross-border incidents, especially along the borders between major source countries and transit states, such as the Afghan-Tajik or Afghan-Iranian borders.

Second, in areas of armed conflicts over control of government or territory, drug businesses also become a major conflict resource. This mainly holds for non-state combatants who are generally constrained in their access to the formal economy and heavily rely on informal activities for funding, but may also apply to some state-affiliated actors who rely on drugs and counternarcotics policies as a means of patronage. Armed non-state actors in conflict with the state, such as the Taliban in Afghanistan since late 2001, should be distinguished from organized crime, even if they use drug profits for funding and engage in drug business. The main distinction is that, unlike criminal groups, these militant actors contest political control over territory or government. While non-state conflict actors, much like organized crime groups, primarily operate within the informal economy, they may also engage in some forms of legal eco-

nomic activity. For Islamist groups, such as the Taliban in Afghanistan, an additional specific mode of funding is available through diversion of religious funds, often coming from abroad and originally collected as religious donations for legitimate purposes.

Links between illicit drug business involving Afghan opiates and armed opposition groups are not strictly confined to Afghanistan. There is some potential for overlap between organized crime, including trafficking, and anti-government militants in certain parts of Central Asia (such as parts of the Batken region in southern Kyrgyzstan or the Isfara district of Tajikistan's Sughd province bordering Kyrgyzstan). This overlap is secondary to the primary role of organized crime groups across the Northern trafficking route and its connections to government officials. In particular, the UNODC sees no strong evidence that any terrorist group is benefiting from the heroin trade in Central Asia.<sup>90</sup> The periodical incursions of Islamist militants from Afghanistan into Central Asian states points to the absence of effective border controls and the lack of state functionality and access to peripheral areas. It does not appear to be primarily related to cross-border narco-trafficking.

All this, however, pales in comparison to the long-standing, persistent, and deeply embedded symbiosis between illicit drugs and armed conflict in Afghanistan. The next section focuses on Afghanistan where a major armed conflict has been underway and where the links between illicit drugs and insurgency are closer.

## Illicit Drugs and Islamist Insurgency in Afghanistan

Considering the high profit margins of narcotics, non-state actors' involvement in the drug business is usually predetermined by their main areas of operation and/or origin. The links between insurgents and drug businesses are most profound and systematic in major drug-producing countries such as Afghanistan and in areas without stable state control along major trafficking routes. In addition to drug revenues for self-financing, the insurgents' involvement in protection of cultivation of drug crops, especially in the absence of cash-generating income alternatives, may become a way to link the local population to the insurgency. This allows for a source of support for the population, letting the insurgency develop a hearts-and-minds-like strategy. Importantly, in areas where the links between drugs and conflict/militant actors are the closest, drug profits are the lowest and comprise a relatively small proportion of the overall income and total value of the global narcotics market. However, even these limited revenues can be significant when compared to the relatively small size of the local or national economies.

When the de facto Taliban government came to power in 1996, amidst bitter feuds among competing mujahedin factions, the country was already well-established hub of the regional shadow economy. Adjusting to these realities, the Taliban tried to establish a rentier economy and taxed licit and illicit trade. Taxing was highly localized. In some parts of

the country, they collected a 10 percent post-harvest tax from all agricultural production, including poppy cultivation.<sup>91</sup>

At the outset of their regime, the Taliban briefly tried to limit opium cultivation (but not trade) in areas under their control. Their revenues from taxing the region-wide smuggling of other goods tended to be larger than those from opium cultivation. For example, in 1997 the Taliban reportedly collected 75 million USD in revenues from taxing the regional trade in consumer goods, compared to an estimated 27 million USD from taxing poppy cultivation.<sup>92</sup> This may explain why the Taliban felt they could afford to impose the ban on poppy cultivation in 2000.<sup>93</sup> Analysts suggest the ban might have also been intended to avert further international sanctions and to secure foreign aid. Thus, a combination of market forces, political conditions, and a strong religious imperative favored an opium cultivation ban.

As a result of the 2000 Taliban ban, opium cultivation in Afghanistan fell by 91 percent in 2001 (see Fig. 2). As with subsequent but much less effective provincial bans under the Karzai administration, the Taliban used a combination of coercion, moral suasion, and the promise of development assistance to impose the ban. In the east, in the province of Nangarhar, the Taliban struck deals with some of the more influential tribal groups such as the Shinwari, with reports of cash payments to tribal elders and preferential access to international donors. In the south, although the Taliban enforced a ban on growing poppy, the opium trade continued, as did the

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In most insecure areas affected by conflict and terrorism, tough counter-narcotics measures (such as massive aerial eradication) tend to antagonize the population, increase insecurity, and garner support to the insurgency.

reports that they collected taxes on both the trade and the processing of opiates. The ability of the Taliban to sustain a ban on growing was not tested, however, as the regime collapsed during the U.S.-led military intervention.

The Taliban-led insurgency has gained strength since the mid-part of the last decade. Due to high opium prices following the effective Taliban ban, ineffectual governance in large swaths of the country, and a lack of alternative economic opportunities, poppy cultivation also grew exponentially. Seeking to expand its control over rural areas, mostly in the poppy-growing south, the Taliban raised some of the funds for their comeback by taxing cultivation and opium production or getting payments from farmers in poppy-growing areas.

By 2009-2010, the Taliban developed an interdependent relationship with those involved in the opium economy in the south, including farmers, local traders, and traffickers. This symbiosis, however, still falls short of the more advanced stages of integration with illicit drug business that can be seen in some drug-producing areas in other parts of the world (e.g., in Colombia or Myanmar).<sup>94</sup>

It is harder to estimate the annual value of Taliban income from drug-related activities in the last decade and the relative share of drug revenues in their overall funding than to calculate the gross and net values of Afghanistan's opium economy, which is difficult in and of itself. Estimating how much the Taliban earns from drugs and other crime is extremely complex and fraught with uncertainty. Estimates differ and the methodology used for these calculations are often unclear. The numbers that are circulating can give an estimate as to the scope and scale of Taliban involvement in and profit from the growth, production, and trafficking of opium, but they are only that—estimates. Some of the circulating figures (such as the UN estimate of opium-related funds of armed groups at 200-400 million USD annually for 2006–2007) did not differentiate between various warlords and insurgent groups.<sup>95</sup> Recent UNODC analyses estimated the insurgency's drug income at 140-170 million USD.<sup>96</sup> The highest of the UNODC estimates of the Taliban annual drug income (170 million USD) makes up for about 6.5 percent of the net value of the opium economy inside Afghanistan (2.6 billion USD in 2011).<sup>97</sup>

We cannot be sure if the funds that insurgents receive from farmers' poppy harvest form a larger or smaller portion of Taliban drug earnings. The Taliban do collect farm taxes, and these are probably the majority of earnings for the local commanders in those areas. Analysis that suggests that the Taliban collect the agricultural tithe, known as "ushr," of 10 percent of the final yield of all crops, including opium, is not borne out by in-depth fieldwork in Helmand or Kandahar. As was suggested by a member of the expert group, on-the-ground empirical work suggests a far more complex picture in which farmers make payments to a variety of institutions including the mullah, the Taliban, and government officials. It indicates that these payments differ considerably according to location, the productivity of the land (with those in former desert areas paying only 5 percent "ushr" to the mullah) and existing relationships and patronage networks.

It is also very difficult to estimate how much the Taliban gets in revenues stemming from other aspects of the opium trade. Depending on the region, the insurgents' total income from opiates may also include protection fees on laboratory processing and taxation on imports of chemical precursors. The amount and proportion of these funds are very difficult to estimate. Overall, Taliban drug earnings are concentrated in southwest Afghanistan and parts of Pakistan. In those areas, they earn significant sums from taxing, protecting, and engaging in drug trafficking, but they are not poised to become a global drug trafficking organization.

Research also points to the insurgency's increasingly diversified financial system and at several other sources of funding available to the Taliban. They include levying regular Islamic taxes on property and licit economic activity; taxing gems and timber smuggled across the Afghan-Pakistani border; demanding protection money from a wide range of local businesses; and receiving donations from ideological sympathizers in the Gulf states—non-state and state-affiliated actors in Pakistan.<sup>98</sup> According to an assessment by the International Monetary Fund, the Taliban and other anti-government elements may raise more money through other illicit activities than from opium revenues.<sup>99</sup>

Against this backdrop, the U.S. and NATO forces are focusing on targeting traffickers



who are “providing material support to the insurgents.”<sup>100</sup> This suits their counterinsurgency strategies, but does not constitute an adequate strategy to reduce the overall opium trade. Moreover, Taliban commanders control a limited segment of the global heroin trade, largely in Afghanistan and Pakistan. The Taliban have not become a global trafficking force like the FARC in Colombia.

## Armed Conflict, Narcotics, and State Functionality

The most critical link between conflict and drugs in Afghanistan may not even be the direct role of drug revenues as a source of funding for the insurgency or in creating the financial reasons for collusion between state and anti-state actors. Rather, the critical link may be the more general role of armed conflict and other conflict-related violence in weakening and undermining basic state capacity and functionality, corrupting the state, and preventing state access to insurgency-controlled peripheral areas where drug crops migrate or are concentrated.

In most insecure areas affected by conflict and terrorism, tough counternarcotics measures (such as massive aerial eradication) tend to antagonize the population, increase insecurity, and garner support for the insurgency. At the same time, as well illustrated by the situation in the more peripheral areas of Afghanistan’s southern and eastern provinces, softer counternarcotics measures are difficult to implement in areas lacking security, state access, or recognized governance. More generally, softer measures (voluntary eradication, crop substitution, alternative development) tend to work only if they are implemented as part of a broader strategy of rural development and when the population has a relatively non-confrontational attitude (as was the case of Thailand or Bolivia). There are areas in the country where conditions are in place (primarily in some lower valley areas), but these conditions are mostly lacking in upper valley areas where there is not a strong history of state control, and especially in areas of continuing armed confrontation.

In the absence of functional governance in contested areas in regions that are central to Afghanistan’s opium production, neither tough nor soft counternarcotics measures, nor a combination of the two, can work. In

such areas, the fundamental condition for tangible progress towards an integrated development and enforcement solution is to ensure basic security and functional governance. This, in turn, is impossible to achieve unless the level of armed violence is reduced. In principle, this could be done either by force (which has not been effective during the US/NATO counterinsurgency campaign and is even less likely to be effective after ISAF’s withdrawal) or through a political negotiation process.

The nature of a political settlement for Afghanistan is a highly contentious matter that combines intra-Afghan, regional, and international dimensions. A number of other reports have addressed this subject in detail. Still, even the best-intentioned peace plans<sup>101</sup> that contend that the Taliban can, in principle, be integrated into Afghanistan’s heavily centralized and relatively secularized civil governance system are very different from the reality on the ground. What is clear is that the ongoing armed conflict, void of political settlement, prevents the establishment of relatively stable and functional governance in poppy-growing regions, which, in turn, complicates any efforts to counter illicit drugs.

A political settlement, however, will not fully solve the problem of lack of governance functionality in Afghanistan, including in areas not affected by the insurgency. Some may perceive the Taliban as an alternative to a government system that does not work, but what they actually would like is a government system that works.

The Taliban has a record of both improved basic security and functional governance in areas under their control, especially in areas less contested by foreign and government forces. Relative improvements in security and governance, however, have been at a significant cost to the civilian population. As an active insurgency movement and a shadow governance system, the Taliban now uses revenues from opium cultivation as one of their several sources of funding, but they have also demonstrated an ability to collect basic taxes from licit activities and property. Historically, the Taliban movement is one of the very few actors in Afghanistan with a record of strict counternarcotics politics. However, even their unprecedented total enforcement of the 2000 cultivation ban did not restrict selling, processing, or trafficking. All these and other

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The main question, however, is whether development and enforcement-oriented counternarcotics measures can be effective beyond select local contexts and can reduce the opium economy while Afghanistan lacks functional governance and an effective state security presence.

An Afghan security guard stands near a flame of opium fire during an opium burning ceremony on the outskirts of Kabul.

factors make tougher counternarcotics provisions a negotiable—but unlikely—condition for any configuration of settlement talks with the insurgency.

Finally, the ability of the Taliban to implement laws against poppy cultivation again may be more constrained now than it was in 2000-early 2001. Considering the lack of alternative economic opportunities and state security presence and the unprecedented size of arable and irrigated land now available for cultivation in these areas, it is likely the poppy cultivation in the south will increase. In this context, it is unlikely that the Taliban would risk their non-confrontational relations with and support from the population in these areas by enforcing strict counternarcotics measures, at least in the near future.

Continuing armed violence and general insecurity in Afghanistan complicate the use of “soft” counternarcotics strategies such as crop substitution, generating alternative cash incomes, development assistance, and socio-economic development in general. In high-risk areas of continuing armed conflict, it is also difficult to employ enforcement-type policing activities. The main question, however, is whether development and enforcement-oriented counternarcotics measures can be effective beyond select local contexts and can reduce the opium economy while Afghanistan lacks functional governance and an effective state security presence. These challenges will be exacerbated once the ISAF security presence ends in its current form.

No significant reduction of the drug economy, including in a conflict-torn area, is likely to occur unless there is a combination of regional and global market conditions favoring the decline of drug production in a particular region, such as the emergence of formal or informal economic alternatives to opium as sustainable cash-based income. As noted in this report, a temporary decline in poppy cultivation in Afghanistan in 2008–2009 resulted partly from a positive market correction towards a discernible shift to wheat cultivation amid the global food crisis, rising wheat prices, and growing food insecurity at the micro-level of farming households.

However, no economic condition will have the lasting effect of reducing the size of the opium economy without security—and that can only happen when a functional state exists. This capacity has been true in all countries that managed to significantly reduce the size of their narcotics economies in the past (such as Thailand, Myanmar, or China). The lack of such capacity in today’s Afghanistan makes effective state- and institution-building, based on an intra-Afghan political settlement, the single most important long-term priority. A political settlement must take into account the stark differences in Afghanistan, especially given the history of Afghan state control over lowland valleys but not in areas of greater tribal heterogeneity and limited resources.





# 6. Conclusions

The main dilemma for counter-narcotics in and around Afghanistan is not a strict choice between hard and soft measures prioritizing either eradication/ interdiction or alternative development.

- Afghanistan is already the source for 80-90 percent of global opium production and poppy cultivation, which will likely continue to increase ahead of and after the 2014 ISAF withdrawal and U.S. drawdown. All stakeholders must recognize that slowing the flow of drugs from Afghanistan is a long-term challenge that will require multifaceted cooperative counter-narcotics strategies that take on security, development, and governance challenges in Afghanistan.
  - Russia is one of the single largest markets for Afghan heroin. Consequently, Russia faces some of the gravest health, socio-economic, and law enforcement challenges from Afghan narcotrafficking.
  - Since Russia cannot afford direct military or security involvement in Afghanistan, it has to rely on whatever security capacity is present in Afghanistan for counternarcotics. Russia thus has a genuine interest in strengthened security capacity and general state functionality in Afghanistan and in increased regional counternarcotics cooperation around Afghanistan, especially along the Northern trafficking route via Central Asia.
  - Since 2001, the United States' main interests in Afghanistan have been security-related. Despite not being a major end-market for the Afghan opiates, the United States has its own interest in contributing to counternarcotics in Afghanistan.
- The United States has paid progressively growing attention to the role of drug revenues in the financing of insurgency and terrorism, and it increasingly sees narcotics as one of the main sources of corruption and impediments to state functionality in Afghanistan.
- The United States is the largest and most influential external security actor and provider of counternarcotics assistance in Afghanistan, and will continue to be so after the end of the NATO- ISAF mission in 2014. The United States also possesses significant resources and capacities to contribute to countering narcotics trafficking from Afghanistan.
  - While the type and scale of threats posed by Afghan opiates to the United States and Russia are different, Washington and Moscow also have a number of shared concerns related to Afghan opiates and the global opiate market.
  - Afghan narcotrafficking is one of the leading sources of illicit drug-related criminal profits. It is closely related to and spurs other types of transnational crime and money laundering at the regional and global levels, affecting both Russian and U.S. interests.
  - The links between narcotrafficking, corruption, and dysfunctional governance are endemic and extend beyond Afghanistan, contributing to insecurity and

- bad governance in regions of strategic importance to Russia and the United States.
- The links between narcotrafficking and organized armed violence, and related transnational criminal and militant/terrorist networks, pose new types of security threats at the regional and global levels.
  - Russia and the United States share the challenge of high levels of opiate abuse, even if opiates come to their domestic markets from different source regions.
  - Despite disagreements on the choice of and responsibilities for counternarcotics measures in Afghanistan, such as large-scale eradication, there is also a degree of shared understanding between the United States and Russia. The main dilemma for counternarcotics in and around Afghanistan is not a strict choice between hard and soft measures prioritizing either eradication/interdiction or alternative development. This expert group strongly emphasizes that any effective counternarcotics strategy implies an integrated enforcement and development solution. The optimal combination and proportions of interdiction, eradication, alternative crops, and income-generating strategies will inevitably vary, even for different local and regional contexts within the same country.
  - A counternarcotics strategy that is fully subordinated to combating the Taliban insurgency is insufficient. Afghan narcotrafficking benefits other actors in Afghanistan, including criminal profiteers and state officials. The insurgents also enjoy multiple and diverse revenue streams, including from sources other than drugs.
  - The ongoing armed conflict in Afghanistan continues to limit state access in many areas that are central to poppy cultivation and weakens state functionality. The effectiveness of any development and enforcement strategies against illicit drugs is likely to hinge on improved security. That, in turn, may require tangible progress on a political solution to the ongoing conflict in Afghanistan. Currently, this remains a remote prospect.
  - Combating drug abuse is a multi-pronged effort involving not only enforcement, development, and international cooperation, but also prevention, treatment, and education. U.S.-Russia cooperation must involve attention to demand reduction as well as to reducing the supply of opiates from Afghanistan.
  - Much more can be done to trace the global financial flows from Afghan narcotrafficking; the U.S. and Russia would benefit from cooperation to “follow the money.”

Combating drug abuse is a multi-pronged effort involving not only enforcement, development, and international cooperation, but also prevention, treatment, and education.

When the international security presence ends in its present form in 2014, the Afghan government's still fragile control in some of the poppy-growing provinces is likely to weaken, perhaps significantly.

- The combined value of the heroin markets in Russia and in the Northern route transit countries of Central Asia accounts for over 12 percent of the global heroin market, highlighting money laundering concerns and the need for more active regional and international cooperation on related issues.
- The U.S. financial system and interests are not safe from money-laundering transactions related to narcotics, including opiates of Afghan origin. At the same time, the United States possesses unique anti-money laundering experience and capacities that may be of particular interest and use to Russia, given the scale of its heroin threat.
- Afghan narcotrafficking poses a growing threat not only to Russia and other consumer end-markets, but also to Afghanistan itself, in terms of soaring domestic drug abuse as well as corruption fueled by the drug trade. It also poses a direct threat to transit states such as Iran and Pakistan, as well as Central Asian states.
- The widening possibilities for traffickers along the Northern Route through Central Asia may overlap with and be exacerbated by several risk factors that favor a short- to mid-term increase in opiate production and output in Afghanistan itself. Afghanistan has never had as much land under irrigation as it does now. When the international security presence ends in its present form in 2014, the Afghan government's still fragile control in some of the poppy-growing provinces is likely to weaken, perhaps significantly. The lack of state presence coupled with growing insecurity will impede licit economic opportunities and markets. Against this background, expanded arable and irrigated areas may be easily diverted to poppy cultivation again.
- So far, most U.S.-led counternarcotics initiatives in Central Asia developed in parallel to, rather than in cooperation with, regional forums where Russia plays a lead or major role. This reflects the persistent low level of trust regarding each other's interests and presence in the region and their differing perceptions of the NATO–CSTO/SCO strategic rivalry in broader Central Asia. Two more specific challenges to U.S.-Russia counternarcotics cooperation along the Northern Route are:
  - The reluctance of Central Asian governments, especially in Tajikistan, Uzbekistan, and Turkmenistan, to fully cooperate with Russia and the United States, and with each other, on counternarcotics efforts.
  - Increased U.S. security involvement in Central Asia reinforces Russia's suspicions of U.S. motivations for cooperation along the Northern Route.
- In Central Asia, the counternarcotics challenges will especially increase for Kazakhstan. These growing pressures dictate the urgent need for Kazakhstan to become the main hub for counternarcotics in the region. This requires maximum assistance and cooperation from both Russia and the United States. This raises the significance of the Almaty-based UN-affiliated Central Asia Regional Information Coordination Center (CARICC), including its role as the regional cooperative framework with both U.S. and Russia's participation.
- Despite existing difficulties and disagreements, especially on Afghanistan and Central Asia, there are also some facilitating factors for U.S.-Russian cooperation on counternarcotics in the context of Afghan narcotrafficking. One such factor is active, broad bilateral cooperation on counternarcotics that develops rather steadily, regardless of the zigzags in the overall U.S.-Russia relationship. In fact, U.S.-Russian bilateral cooperation on interdiction and other counternarcotics issues has proved to be an effective way to build trust between the two countries, especially in their counternarcotics and law enforcement communities.

## Abbreviations and Acronyms

<b>ANP</b>	Afghan National Police
<b>CARICC</b>	Central Asia Regional Information Coordination Center
<b>COIN</b>	counterinsurgency
<b>CSTO</b>	Collective Security Treaty Organization
<b>DEA</b>	Drug Enforcement Administration, USA
<b>EAG</b>	Eurasian Group on Combating Money Laundering and the Financing of Terrorism
<b>FATA</b>	Federally Administered Tribal Areas, Pakistan
<b>FATF</b>	Financial Action Task Force
<b>Fin TRACA</b>	Financial Reports and Analysis Center, Afghanistan
<b>FSKN</b>	Federal Service for Control on Narcotics Circulation, Russian Federation
<b>GLE</b>	Governor-led Eradication
<b>ha</b>	hectare
<b>ISAF</b>	International Security Assistance Force in Afghanistan
<b>mt</b>	metric tons
<b>NDN</b>	Northern Distribution Network
<b>Rosfinmonitoring</b>	Federal Financial Monitoring Service, Russian Federation
<b>SCO</b>	Shanghai Cooperation Organization
<b>UNODC</b>	United Nations Office on Drugs and Crime
<b>USD</b>	United States dollar

# ENDNOTES

## Section 1

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