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THE IDENTIFICATION OF MONEY LAUNDERING ON DRUG TRAFFICKING

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ABTRACT
Drug trafficking is a holistic process. The involvement of various parties linked with law enforcement efforts. The number of drug trade reaches millilons of tons. This number equivalent to billions of fund that circulating in trading transactions. The one alternative ways to eradicate drug trafficking is to track the cash flow. Because of the financial transactions as the main chain to running this business. Tracking the flow of drug trafficking funds through money laundering approach can be done by indetifying various placement, layering, and integration activities of suspicious financial transactions. The placement pattern becomes the entrance of financial transactions through the participation of the providers of financial services. The layering pattern can consist od smurfing, money changer, and buying a stock portofolio. Meanwhile, the integration pattern enters various business activities with minimal risk. The prediction of money laundering tren based on drug trafficking leads three aspects, that is utilization of technologies, the role of third parties, and the involvement of unscrupulous government and law enforcement.

Key words: Drug Trafficking, Money Laundering, Pattern, Tren

1. INTRODUCTION

Above statement is a quote of assertion made by President Joko Widodo in illustrating the situation of drug trafficking and abuse in Indonesia. Based on the statement, it is clear that Indonesia is facing a trend of increasing attack from drug trafficking and abuse. The statement also shows behavior of self readiness to counter various threats, direct or latent ones, coming from the drugs.

President Joko Widodo's concern reflects Indonesia's commitment to declare the war against drug trafficking in Indonesia. Geographically, Indonesia has become a country 'red' flagged as drug trafficking area (UNODC, 2015). As comparison, such drug trade in Latin America (Bolivia, Kolombia dan Peru) is dominated by cocaine-based products. Opium has been massively produced by Asian countries, e.g. Afghanistan, Myanmar, Pakistan, Thailand, Vietnam and Lao. Meanwhile, marijuana is mainly from Indonesia and Philippines.

The confiscation rate of drugs in Indonesia tends to be fluctuative. This is shown based on the confiscation evidence during 2009 to 2013. Marijuana, meth, and ecstasy become drug trade commodities that dominate the market. This findings indicate that the confiscation number of drugs in Indonesia is comparatively low to the trafficking reaching the society. Therefore, the gap reflects the future of drug trafficking in Indonesia.

Aside from the aspect on drug trafficking number in Indonesia, describing the emergency status can be based on the economy aspect. The calculation on

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Table 1. **Table of Recapitulation onDrugs Confiscation Number Year 2009-2013**

	Jenis	2009	2010	2011	2012	2013
1.	Heroin (Gr)	15.473,70	25.053,44	27.439,81	38.014,86	11.054,04
2.	Kokain (Gr)	265,70	53,03	66,97	5.878,44	2.035
3.	Morphin (Gr)	-	-	-	-	-
4.	Hashish (Gr)	58,80	4.946,60	230,99	7.836,44	2.067,68
5.	Ekstasi (Tbl)	309.382,00	424.515,50	826.096,25	2.850.947,00	1.137.940
6.	Shabu (Gr)	237.838,30	354.065,84	1.092.029,09	1.977.864,07	398.602,55
7.	Daun Ganja (Gr)	110.764.253,90	22.689.916,05	23.891.244,25	22.019.933,68	17.763.959,76
8.	Pohon Ganja (Btg)	541.019	449.618	1.839.664	341.395	534.829
9.	Luas Area (Ha)	241,8	178,4	305,83	89,5	119,9
10.	Biji Ganja (Gr)	518	750	4,38	284,91	12

Sources: Indonesian Police Force/Polri (2014) & National Anti-Narcotics Agency/BNN (2014)

drug trafficking transaction is difficult to validate considering the variety on the trafficking route and the mode used (*dark figure of crime*). The estimated total loss on individual and social cost resulted from drug abuse in 2014 reached IDR 42.9 trillion (BNN, 2014). Meanwhile, according to Sumirat, the Chief of Public Relations of Indonesian National Anti-Narcotics Agency or BNN, said that the value of drug trafficking transaction in Indonesia is about IDR 48 trillion from the total of IDR 110 trillion transaction throughout ASEAN (aktualpost.com, 2015). Latent impact of drug abuse and trafficking in Indonesia in economy sector reaches IDR 90 trillion per year. Based on the data, the effort to trace the financial transaction sourced from drug trade revenue can be an alternative to fight against drug trafficking in Indonesia. This can be done by appliying the money laundering approach.

2. THE REGIME OF ANTI-MONEY LAUNDERING

The advancement of technology and globalization become major factors in the development of money laundering, especially with the current advance system in finance. The finance system is the main tool in money laundering, especially the ones produced by banking institution (Grosse, 2001; Alldridge, 2003; Stessen, 2003; Reuter dan Truman, 2004; Lilley, 2006; Alexander, 2007). This is in accordance with the effort by many finance institutions (especially banks), whether they are the formal or non-formal (e.g: profession or supplies of goods and service) ones, which are demanded to continuously conduct actualization on the mechanism and instrument of finance (Husein, 2002).

This situation triggers efforts in combating and preventing money laundering activities by establishing the international anti money laundering legal regime. This is symbolized with the establishment of United Nations Convention Against Illicit Traffic in Narcotic Drugs and Psychotropic Substances in 1988 (Vienna Convention 1988) led by United Nations (UN), as well as the establishment of The Financial Action Task Force on Money Laundering (FATF) as the international institution with role to prevent and combat money laundering crime. The history of anti-money laundering then began with the birth of such international regulations and standards on money laundering.

According to Reuter and Truman (2004:46-47), two main pillars of the efforts in preventing and combating money laundering are prevention and enforcement. On prevention pillar, there are four elements as the prevention measures of money laundering, i.e.

customer due deligence[2], reporting, regulation, and sanctions. Meanwhile, on enforcement pillar, there are four elements as well, i.e. predicate crimes, investigation, prosecution, and punishment.

The development of money laundering has gained attention of international society to actively combat and eradicate all forms of money laundering. This motivates the establishment of international organizations that try to prevent and combat money laundering. The role was upheld by many international organizations viewed as International Standar Setter (Husein, 2004). Those organizations span from United Nations, FATF, The Basle Committee on Banking Supervision (Basle Committee), International Association of Insurance Supervisors (IAIS), International Organizations of Securities Commissions (IOSCO), and The Egmount Group. Indonesia supports these regimes by running the Center for Financial Transaction Analysis Reports or PPATK.

3. THE INFILTRATION OF CASH FLOW SOURCED FROM DRUG TRADE

The birth of international legal regime for anti-money laundering is triggered by the frustation felt by world society on the effort to eradicate the drug trade crime that has reached the lowest peak (Husein, 2004). The high rate of drug trade is proportional to the consumption rate by society. Therefore, the existence of the regime becomes the 'spearhead' in combating the crime of drug trade (Grosse, 2001; van Duyne dan Levi, 2005). The focus is not to follow the suspect anymore, but on the confiscation and seizure of the revenued wealth (Edwards dan Gill, 2004).

The crime of drug trade is closely related to the process of money laundering. In the Note of the Secretary-General of the United Nations (1992), it is stated that the activity of drug trade was part of the effort to manipulate the revenue (Stessen, 2003:6). The international mafia case, Al Capone is a classic example of money laundering activity sourced from drug business. The scope of Al Capone's business was even able to enter Asia Pacific, Europe, and South America. In the book *The Mafia and Organized Crime* (Finckenauer, 2007:40-46) the Chicago-based mafia did the money laundering through businesses ranging from prostitution, night life, pizza restaurant, to gambling.

Today, the current development of drug trade in some countries even show a shocking result. Gerard Wyrsch (1990) stated that money laundering that comes from narcotics business in United States were estimated to reach USD 100 to 300 billion per year. Meanwhile, in Europe, the figure was about USD 300 to 500 billion per year. After 10 years, FATF in Annual Report 2000-2001 estimated that from the USD 600 billion to 1 trillion laundered, mostly are from the narcotics business (FATF-GAFI, 2002). This figure could experience increase in time with the speedy increase of annual narcotics business. Even to reflect this, van Duyne dan Levi (2005:106) revealed that the occurance of various threats towards economy and politics are suspected of coming from millions of US dollars of drug trade.

Meanwhile, in *International Narcotics Control Strategy Report* (INCSR) published by *Bureau for International Narcotics and Law Enforcement Affairs* (2003), there are categorization on major laundering countries. Indonesia is included in the category together with Australia, Canada, China, Hong Kong, India, Japan, Myanmar, Nauru, Pakistan, Philippines, Singapore, Thailand, United Kingdom, and United States. This status is entitled to countries with finance institution and system assessed to be contaminated by international narcotics business involving a very big amount of money (Husein, 2004).

Based on above explanation, it is expected that *United Nations Drugs Control Programme* (UNDCP) would give 'yellow mark' for narcotics problem in Indonesia. Meanwhile, for psychotropics, it is marked with red color.[5] In accordance with that, the fact shows that the cash flow of drug business in Indonesia reached IDR 300 trillion per year (BNN, 2003).

4. THE PATTERN OF MONEY LAUNDERING SOURCED FROM DRUG TRADE

The effort in criminalizing money laundering was first made to combat and eradicate the narcotics trade. The perpetrators of drug trade launder the money to change the illegal revenue into legal one (Lilley, 2006). The laundering of money revenued from drug trade is done to complicate the predicate crime, i.e. the drug trade.

Narcotics become the main commodity in making money for transnational organized crime (TNOC). In the beginning, narcotics was used by people residing in narcotics producing area for medicine, religious purpose, and entertainment. Then, narcotics becomes substance that is misused to become the need of someone's life (Finckenauer (2007:126).

Drug trade, as well as the other forms of crime, has the final goal which is to gain financial benefits that is money (Lilley, 2006:1). Therefore, money has important role as the modality in conducting the crime of drug trade. According to Denham (in Alldridge, 2003:6) there is modality in drug trade related to the amount of circulated money. That is why Stessen (2003:29) stated that, '*the first and most important legal tool for depriving offenders of illegal profits is confiscation of proceeds from crime*.' Thus, the main focus of eradicating drug trafficking is the money used as the 'financial life blood.'

Generally, the laundering activity on money from drug trade is sepatared by two types of business, i.e. the illegal and the legal one (Abadinsky, 2000; Adler, dkk., 1998). Illegal business is business or activity violating the law by becoming the source of illegal money. Such illegal money is then 'laundered' through various financial transactions and invested into the legal business. The illegal business of the drug trafficker covers the drug trade as main business, gambling, prostitution, and extortion (Finckenauer, 2007; van Duyne & Levi, 2005; Abadinsky, 2000; Adler, dkk., 1998). Meanwhile, the legal business takes form as investment in dining, shopping, computers (IT), car dealer, tourism, entertainment, sports, and real-estate (Shanty, 2008; Lilley, 2006; Grosse, 2001).

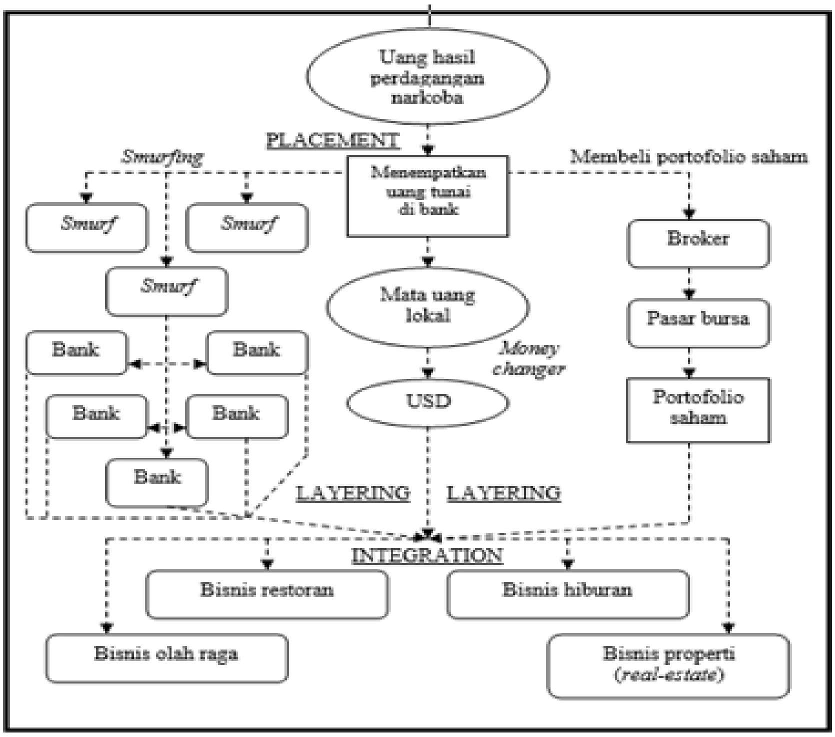
The pattern of the first activity in money laundering on drug trade revenue is putting the money back into the finance system. The money is divided into several accounts in different banks under other people's names—whether they are family's, friend's, or colleague's that are not the perpetrator of drug trafficking. Aside from that, the perpetrator also has legal business which performs as the 'washer' so that it would be seen as legal activity. The money in those accounts would be put together in a legal business. In short, these activity form a particular pattern which is the pattern of money laundering for drug trade revenue.

The pattern can be categorized into phases of placement, layering, and integration. Placement phase is the activity of placing the money into the finance system, whether it is through finance institution (in form of banks) or non-finance institution. Then, the layering phase performs as stage where the perpetrator puts layer, divides, and blurs the money which has been put inside the system in order to dismiss the origin tracks or the source of the money. The last phase of integration refers to activity in which the perpetrator put together all the divided money by investing it into legal business. Only after passing all of these phases of money laundering, the perpetrator could enjoy the revenue from the drug trade like a legal revenue. That pattern is illustrated through the following Figure 1.

Placement

*Placemen*t is the first activity in money laundering process for drug trade revenue. It covers the placement of the money (in cash) into the finance system through finance and non-finance institution. But, in reality, the finance institution or the

Figure 1. **Picture of the Pattern of Money Laundering Sourced from Drug Trafficking**



finance service provider (PJK in Bahasa Indonesia) is oftenly set as the media for *placement*.

PJK is used as the location of the money which is generally comes from banking sector (Finckenauer, 2007; Lilley, 2006; Block & Weaver, 2004; Reuter & Truman, 2004). Banks become main option due to the variety of financial mechanism and instrument that ease the money laundering activity. According to Lilley (2006:11), various financial mechanisms and instruments of PJK that give rooms to money laundering cover:

- anonymous bank account;
- internet andphone banking;
- ATM and credit cards;
- the availibility of banking service;
- unlimited cash withdrawal; and
- anonymous financial transfer.

Various mechanisms and instruments offered by PJK give rooms to the perpetrator to do placement. Therefore, Grosse (2001:3) thought that the banking institution is considered as the 'entry point' of money laundering. The following are some reasons on choosing banks as placement media (Lilley, 2006:65):

- there are banks possessing networks with high risk foreign banks;
- some banks have legal problem, or, doubtful license. These banks are called with shell banks;
- advanced technology and globalization encourage the use of electronic financial transaction which is usually used by offshore shell banks;
- there are major banks which believe on and do not concern with the license of high risk foreign banks (including the validity of bank status, lack of control and activity of the bank);
- the lack or the ineffectiveness of anti-money laundering approach applied by major banks;
- the flexibility of major banks to accept credit or ATM cards issued by high risk foreign banks; and
- high risk foreign banks are used to be utilized as media for laundering the money revenued from drug trade, investment in legal business, fraud case, and facilitating the internet gambling.

Layering

Layering, like legal financial transaction activity, encompasses various financial transaction activities themselves with frequency, volume, and complexity on the cash flow of the illegal money (Grosse, 2001). The main objective from layering is to blur the origin trail of the illegal money. Layering in this money laundering activity includes smurfing, money changer, and the purchase of stock portfolio in stock exchange and of other securities.

1. *Smurfing*

Smurfing refers to transfer activities of an amount of money to different accounts in domestic and offshore banks. Meanwhile, the account owner is known as 'smurf' (Reuter dan Truman, 2004:30). The objective of *smurfing* is to divide the money into some amount deposited into *smurf*'s accounts.

Some of the money from the cocaine dealer is deposited to the cartel financial manager. The money is then deposited in cash and placed into finance system through banks. Then, the collected money is divided into groups of cash addressed to the *smurfs*.These *smurfs* then layer the money by placing it into credit in different accounts in different banks. The money is credited with similar amount of money. These *smurfs* have important role in *smurfing*. The more difficult the transfer is made, the more difficult the money to be traced as the revenue of drug trade.

2. Money Changer

Other layering activity in this money laundering is the purchase or exchange of the money with foreign currency. This activity is called with *money changer*. The money in the finance system is exchanged with some foreign currencies with high value and which are stable. Those are US dollars and UK poundsterling (£). These two currencies are chosen based on the stability and the exhange value which is considered as high.

The mode of money changer includes an activity in which a huge amount of the money which is placed in the finance system of banking institution is exchanged into foreign currency. The purchase of the foreign currency is through electronic financial transaction instrument and service that are provided by the banks. Then, the exchange transaction of the drug trade revenue money using local currency into foreign currency happens.

3. Stock Portfolio Purchase

According to Freddy R. Saragih (Yuhassarie, 2004:212), the mode used in transferring the illegal money sourced from the drug trade placed inside the finance system is through financial instruments in banking institution. Then, the money is transferred into the finance system in stock exchange. The money would be managed by the broker. The broker would circulate the money in the stock exchange by purchasing some stock portfolios and other financial instruments.

The money is used to buy some stock portfolios issued by infamous companies. The analogy on this is that the companies could continue running their business with such money. In other words, only successful business is the laundering of criminal proceeds. Therefore, the companies that are dependent to the layering activities are entitled with *red flags*. *Red flags* is identical with companies including *dotcom companies* on weak or low level of track record and business resilience (Lilley, 2006:69-70).

Integration

The last activity in the money laundering process of such money is to gather all the money that has been processed, following the previous transaction phases. This phase is called with integration. Integration refers to the activity of investing the money in legal business or into several financial assets. In integration, the money has been brought out from the finance system and gathered through several legal activities or business.

Integration as the last phase in money laundering does not have any direct relation to the origin crime anymore. This makes such money that has been in placed in this phase is difficult to identified or detected for its legality. The money then is reused to fund the origin crime, by being invested into some financial assets or being used to fund the life of the perpetrator (Reuter dan Truman, 2004).

Therefore, according to Lilley (2006:73) there are three reasons for *integration* i.e.:

- As the effort to limit the number of people involved in the business;
- To possess competent or professional staff; and
- To create business in trade with a low production cost.

Based on above reasonings, this business that dominates the activity of the *integration* phase encompasses investment on restaurant, entertainment, real- estate, and sport.

5. THE ASSUMPTION OF FUTURE TREND OF DEVELOPMENT

"Not all money-laundering transactions involve all three disctinct phases, and some may indeed involve more. Nonetheless, the three-stage classification is a useful decomposition of what can sometimes be a complex process." (Reuter dan Truman, 2004:25)

The pattern on laundering activity of such money is not specifically divided into those three (3) phases. This is due to the development trend of money laundering activity which has flexibility and in accordance with the advancement of technology. The trend itself is manifested into three (3) forms. The first trend shows that the predicate crimes are more distincted from money laundering activity. According to Savona dan De Feo (Savona, 2005:24-26), the *placement* has been developed involving various mechanisms and instruments of PJK. It is interesting to note that the finance system could be infiltrated by non-banking institution. Today, PJK gets developed with the advancement of technology such as the digital financing service or *fintech*. The second trend is symbolized with the involvement of other profession in money laundering, such as accountant, lawyer, and private finance agent. Savona dan De Feo (2005:21) stated that those professionals make such money laundering more easy to conduct and more difficult to trace. The third trend is the widened scope of the laundering involving various forms of crime and other crime organization. It means that the perpetrator and other crime organization has mutual relationship and good connection to government and law enforcement. Money laundering activity on the revenue of drug trade also contributes in the establishment of banking institution which categorized as *high risk foreign banks* in the area of *offshore financial centers* (Savona, 2001).

The combination of such relationships and connections creates a more complex pattern of money laundering on drug trade revenue. It is due to the close connection in the between of relationship chains which are also mutually benefitting all involved stakeholders (van Duyne dan Levi, 2005). The analogy of it is that the closer and wider the relationship or connection between perpetrators, the more complex and difficult to detect the transaction performed in the activity. In reverse, without close and wide connection between perpetrators, the activity would be prone to break and easy to be identified or traced.