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FEATURED Q&A

Should New Money Laundering Rules Govern Prepaid Cards?

Q A senior U.S. Immigration and Customs Enforcement agent told the Associated Press last month that prepaid cards, such as those branded with the Visa or MasterCard logo, have become the preferred way of paying couriers who transport illegal drugs across the United States. The cards are attractive to money launderers because they can be reloaded, do not require a bank account and can be used anonymously. The U.S. Treasury wants to require businesses selling cards that can be used outside of the country to keep customer records and report suspicious transactions. How big a problem do the cards pose for authorities in their fight against drug trafficking and money laundering? Would the Treasury-proposed requirements be effective in fighting money laundering through the cards? Would such rules place undue hardships on businesses that sell the cards?

A Nicolás Mariscal, chairman of Grupo Marhnos in Mexico City and Sergio Ferragut, a public policy specialist and author: "As long as U.S. authorities, like Drug Czar Gil Kerlikowske, continue to ignore the call from prestigious personalities for a profound review of current drug policies, such as the one published recently by the Global Commission on Drug Policy, the best bet is to hit the drug cartels where it hurts the most, in their pockets. The authorities insist on fighting the plight of illicit drugs

inside the box—within the drug prohibition paradigm—hence, their efforts should focus on fighting drug money laundering. In this context, are prepaid cards a major vehicle for laundering money? They are definitely a tool used to pay couriers. However, they do not account for the tens of billions of dollars flowing back from the illicit U.S. drug business to Mexican cartels; these billions travel in bulk and get laundered within established businesses controlled by the stealth business partners of the drug lords. A more effective strategy

Continued on page 3



Ecuador Court Convicts Six Officers Related to 2010 "Coup"

Rolando Tapia, the former head of security for Ecuador's congress, was among six police officials convicted Tuesday of undermining state security during a police rebellion in Ecuador last September. See brief on page 2.

Photo: El Comercio.

Inside This Issue

FEATURED Q&A: Should New Money Laundering Rules Govern Prepaid Cards?.....1	Mexico GDP Growth in April Weaker Than Analysts Expected2
Mexico's Carstens Gracious After Defeat in Bid to Lead IMF.2	Chile's Domestic Consumption Growing 10 Percent, Finance Minister Says.2
Peru's Humala Visits Ecuador, Discusses Strengthening Unasur.....2	Ecuador Court Convicts Six Officers Related to 2010 "Coup"2

NEWS BRIEFS

Ecuador Court Convicts Six Officers Related to 2010 "Coup"

A court in Ecuador on Tuesday convicted six police officers of undermining state security, local daily *El Comercio* reported. The guilty verdict is related to their roles in a police protest last September in which President Rafael Correa was detained for several hours in a hospital, which he labeled a coup attempt at the time. The officers, who were not sentenced Tuesday but could face between four and eight years in prison, include the former chief of security for the country's congress, Rolando Tapia, and five members of the detachment there.

Petrobras Workers Plan "Warning" Strike for Early July Over Wages

Union workers at Brazilian national oil company **Petrobras** started voting Tuesday to approve a series of one-day strikes to protest the company's profit-sharing offer, a union official told Dow Jones. The strikes would take place nationwide on July 6, 7 and 8, João Antônio de Moraes, coordinator of the Federação Única dos Petroleiros union, told Dow Jones in a telephone interview. "This is a warning. [The strikes] shouldn't affect production."

Chile's Domestic Consumption Growing 10 Percent, Fin Min Says

Chile's economy will grow by more than 6 percent this year, driven largely by rising domestic demand and growth in the developing world compensating for weakness in Europe and the United States, Finance Minister Felipe Larraín said on Tuesday, Reuters reported. Domestic consumption in Chile is growing at over 10 percent, and the construction sector is also becoming a driver of growth, Larraín said at a local conference.

Political News

Mexico's Carstens Gracious After Defeat in Bid to Lead IMF

Agustín Carstens, the Mexican economist and central bank governor who rose to become the first non-European to seriously contend for the managing director position at the International Monetary Fund, lost his long-shot bid on Tuesday after the United States and other world powers threw their support behind front-



Carstens

File Photo: Mexican Govt.

running French finance minister Christine Lagarde (55). Carstens circulated a press release Tuesday saying he welcomed the fund's decision to select Lagarde, calling her a "competent leader." He added that he hopes under Lagarde's direction, "the IMF will make meaningful progress in strengthening the governance of the institution, so as to assure its legitimacy, cohesiveness, and ultimately, its effectiveness." Lagarde has broken new ground of her own, becoming the first woman to lead the IMF, and takes control at a time when the nations of Europe are facing fiscal hardships once more common in Latin America. Canada and Chile this week both publicly supported Carstens' bid, moves that followed most other countries in the Americas. In the end, however, support from heavyweights Europe, China and Russia prevailed in the selection. [See [Q&A](#) on the IMF selection in the June 23 issue of the *Advisor*.]

Peru's Humala Visits Ecuador, Discusses Strengthening Unasur

Peruvian President-elect Ollanta Humala met with Ecuador's President, Rafael Correa, in the capital city of Quito on Tuesday, state news agency Andina reported. In brief remarks, Humala said he aimed to increase economic integration, trade and cultural ties between the

two countries, and would seek to strengthen the Union of South American Nations (Unasur), which is headquartered in Quito. While in Quito, Humala also held talks with Unasur's secretary general, Maria Emma Mejia, before leaving for a visit to Colombia today and Venezuela later this week. Humala, whose narrow election victory earlier this month rattled markets concerned about his economic policy and relations with the private sector, takes office July 28. [See [Q&A](#) in the June 10 issue of the *Advisor*.]

Economic News

Mexico GDP Growth in April Weaker Than Analysts Expected

Mexico's economy grew less than the market expected in the month of April, with real GDP rising 2.44 percent compared to the same month in 2010, the National Statistics Institute, or INEGI, said in a Web site release Tuesday. "The April print came slightly below our 2.6 percent forecast and the 3.0 percent market consensus," **Goldman Sachs** analyst Alberto Ramos said in a research note Tuesday. Activity in April was dragged down by a contraction of the primary sector and the deceleration of the secondary sector due to a large extent by the global supply chain disruptions caused by the Japanese earthquake. On the bright side, Mexico's tertiary sector (services) expanded a moderate 3.12 percent in April. "In all, the real business cycle in Mexico continues to show positive but moderate forward momentum," Ramos wrote. While Mexico's economy has recovered from its dramatic 6 percent decline during the global economic recession, it remains tied to the sluggish United States economy, and its ongoing drug war has harmed investor confidence. Only half of U.S. firms surveyed by the U.S.-Mexico Chamber of Commerce plan to proceed with new investment plans in Mexico because drug gangs have increasingly targeted businesses with violence, extortion demands and the theft of equipment and resources, the Associated Press reported last month. [See [Q&A](#) in the May 31 issue of the *Advisor*.]

Featured Q&A*Continued from page 1*

would be to identify where home is to the billions entering the legitimate economic system under the nose of the authorities but, so far, beyond their reach. The proposed controls on prepaid cards will achieve little in stopping money laundering and, most probably, negatively impact legitimate businesses. In the absence of a systemic analysis of the problem, the authorities continue to focus on the symptoms resulting from a failed drug policy and as Paul Watzlawick and the other authors of the book *Change: Principles of Problem Formation and Problem Resolution* were wise to point out back in 1974, instead of solving the problem, we have created a much bigger one."

A Luis A. Viada, member of the *Financial Services Advisor Board and executive vice president of MicroRate, Inc. in Arlington, Va.*: "It would be a mistake to consider this question strictly in the context of money laundering and drug trafficking. For some time, 'following the money trail' has been an important component of intelligence gathering and international criminal investigations generally. The fact that these cards have become a new conduit for the channeling of illicit money flows suggests that having some way of 'tagging' these flows would be advisable. I have no way of knowing how valuable having this capability would actually be in this broader context, but would suggest that to the extent that international intelligence and law enforcement agencies agree that it is, then those security considerations should trump any concerns for increased administrative costs to the issuers."

A Paul S. Dwyer, Jr., CEO of *Viamerica Corp. in Bethesda, Md.*: "There is no question that prepaid cards that can be used outside of the country should be regulated, just as normal money transfers are regulated. To do anything else is to create (or permit to continue existing) a glaring loophole that can be used to send money internationally without the kind of recordkeeping and compliance required of licensed money transfer businesses. That is bad for law enforcement, bad for the money transfer industry and ultimately bad for consumers. Whether or

“Prepaid cards that can be used outside of the country should be regulated, just as normal money transfers are regulated.”

— Paul S. Dwyer Jr.

not mandating compliance with recordkeeping and transaction monitoring requirements place a 'undue hardships' on businesses selling these cards, it is the right thing to do: if those businesses want to engage in international money transfer, they need to be prepared to do so in a manner that is safe, subject to appropriate and efficient law enforcement scrutiny and less vulnerable to abuse by criminals. The underlying activity being regulated is international money transfer; the fact that a different methodology (a prepaid card) is being used to effect the money transfer is not a meaningful distinction to justify a different regulatory treatment of the transaction."

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