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Government Imposes Tight Restrictions on Cash Transactions To Reduce Laundering Drug Profits

by Carlos Navarro

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In mid-June, the Secretaría de Hacienda y Crédito Público (SHCP) unveiled some of the toughest restrictions on dollar cash transactions in Mexico's history. The restrictions, which limit cash transactions in dollars, are intended to close another avenue for cartels to launder drug profits. President Felipe Calderón's administration is confident that the new regulations will make some difference in the government's overall effort to fight the drug cartels. By some estimates, at least US \$10 billion in proceeds from drug trafficking and related activities are laundered with great ease in Mexico each year. The government announced the restrictions just days after the US and Mexican governments released portions of a study detailing how drug-trafficking profits filter into Mexico and Colombia.

Under the new SHCP regulations, the amount of money that can be converted from dollars to pesos at banks and other institutions will be limited to US\$4,000 per month. This regulation is applicable to deposits, credit payments, and service fees.

The rules are even more restrictive for transactions conducted outside the banking system. The SHCP said non-account holders would be allowed to exchange up to US\$300 per day and up to US \$1,500 per month.

The SHCP said the restrictions could have an impact on money-laundering operations. "For many years Mexico's banking system has been receiving a quantity in cash greater than could be explained by the activities and dynamic of Mexico's economy," said Finance Secretary Ernesto Cordero.

Decision could change business culture in Mexico

Analysts and banking officials believe the SHCP restrictions are a good first step to help reduce the amount of money entering the Mexican economy from sources outside normal business channels. Illegal profits become difficult to track once they have entered the formal economy.

"The problem is in the formal, legal economy, where we have seen an unusual increase in transactions in dollars," said Luis Robles Miaja, president of the Asociación de Bancos de México (ABM). The Mexican banking system receives as much US\$10 billion in dollar deposits per year that cannot be traced to normal business activities.

Robles Miaja said the SHCP restrictions could affect the way business is transacted in Mexico. Until now, it was fairly easy to pay for high-ticket items like homes and automobiles in cash and often with dollars. "This excess is going to decrease substantially...by limiting the way in which dollars were used so freely in the economy," the ABM official said.

But some experts believe the restrictions will not be sufficient to curb money laundering. Juan Jesús Valero Ruelas, a financial expert at the Instituto Tecnológico de Estudios Superiores de

Monterrey-Campus Estado de México (ITESM-CEM), said the government should extend the restrictions outside the financial system to all operations where cash is exchanged, such as the retail and mortgage sectors. Under this plan, the government would have direct control of all cash transactions in properties that the drug cartels have acquired in recent years, including luxury hotels, car dealerships, retail outlets, and land. "It is necessary to monitor any commercial operation of high value," said Valero.

Cordero said the administration is looking at other options to combat money laundering, such as regulating the use of pesos in sales of high-value items. "Measures will be put in place to restrict and regulate many of the sales transactions that are carried out, not just in dollars but also in pesos, for things like real estate," said the finance secretary. This is a very important step."

The ABM is willing to cooperate fully with authorities, but the banking association asked for greater government support in its efforts to fight money laundering. "If the banks are going to take charge of monitoring suspicious cash operations, we will need new internal operation models that would allow us to investigate the accounts and operations of our clients without violating bank-secrecy laws," said ABM vice president Luis Peña.

Other experts suggest that government oversight be extended to other regulators that currently have little input in the process, such as the Comisión Nacional Bancaria y de Valores (CNBV). "It would be beneficial for everyone to give the CNBV more muscle in monitoring the financial sector," said analyst Juan Luis Sherwell Cabello of ITESM-CEM.

Authorities eye small currency-exchange centers

Some specialists note that the small currency-exchange centers in northern states should be monitored more carefully because they are especially vulnerable to corruption, with employees finding loopholes in rules such as the requirement that clients provide identification. As an example, the Mexico City daily newspaper El Universal cited one such center in the state of Sinaloa where certain employees have a drawer full of fake electoral identification cards, which they use for their "best" clients.

"In exchange for a juicy tip, the clerk agrees to conduct an operation involving thousands of dollars," said El Universal. "To comply with the regulations that govern money laundering, they resort to their cache of voter cards, which are either false or belong to someone who is deceased."

The Asociación Nacional de Centros Cambiarios y Transmisores de Dinero (ANCECTD), which represents the small establishments, acknowledged that problems exist but said it is the federal government's responsibility to increase supervision of currency-exchange centers. In most cases, the only requirement is that these informal centers register with the federal tax agency (Servicio de Administración Tributaria (SAT)). In comparison, the larger and more formal foreign-exchange operations are regulated by the CNBV.

Some experts suggest that controlling the smaller currency-exchange centers is easier said than done.

"The banks are very easy to supervise because of their size and because they have their own control mechanisms," said Gustavo Rodarte, president of the Instituto Mexicano de Ejecutivos de Finanzas

(IMEF). "But the currency-exchange centers are numerous, generally small, and spread throughout the country. Trying to control them could present a problem."

US-Mexico report details money-laundering chain

In early June, the US and Mexican governments released a synopsis of a study offering some details on how drug profits are laundered in Mexico. The study confirmed suspicions that more than half the money earned by cartels finds its way to Mexico's cash-based economy. It said the cartels earn an estimated US\$19 billion to US\$29 billion from drug sales in the US.

Other studies indicate that the cartels earn as much as US\$40 billion annually (SourceMex, 2009-10-07 id 050734). In addition to filtering the money to Mexico's cash economy, drug organizations use some of these proceeds to acquire weapons, which they use in violent wars with each other and against authorities. Almost 23,000 people have lost their lives in Mexico since the Calderón government launched its campaign against drug traffickers in early 2007 (SourceMex, 2007-01-24)

The synopsis of the study was presented at a small news conference in Mexico City by John Morton, assistant secretary of homeland security for US Immigration and Customs Enforcement (ICE). Authorities did not release the full report because it contained what was described as secret information.

The synopsis said that drug organizations consolidate profits from their drug sales at selected locations like Los Angeles and Chicago, from where they are moved to the border and broken up again for transport into Mexico and as far as Colombia.

The vast majority of the money enters the country in relatively small amounts of US\$5,000 or US\$10,000 rather than big transactions. "Keeping money in large amounts in a bank is not always an attractive option," said Morton.

But the report noted that, in some cases, drug dealers manage to bring the money into Mexico in bulk, in sufficient amounts to fill a shipping container.

At the press conference, Morton stressed that the US and Mexican governments must do more to slow the flow of money from the US to Mexico. "Simply arresting people won't be a full solution," Morton said. "We have to completely undermine the organizations as businesses, and to do this we have to identify, seize, and forfeit their profits."

This is a theme that Agustín Carstens, the chief governor of Mexico's central bank (Banco de México), addressed at a conference at the end of July. Carstens said the central bank is monitoring the effects of money laundering to determine whether the practice puts Mexico's financial stability at risk.

Additionally, Cordero said the SHCP is investigating some large businesses that are allegedly involved in laundering drug profits. The investigations follow the decision by the US Treasury Department to examine whether businesses owned by relatives of notorious drug-trafficking leader Ismael "Mayo" Zambada have any connection to the drug trade. Zambada is one of the top leaders of the Sinaloa cartel.

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