

Policy Forum 06-35A: US Financial Allegations — What They Mean

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"US Financial Allegations - What They Mean"

Essay by Nigel Cowie

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I. Introduction

Nigel Cowie, General Manager of Daedong Credit Bank, writes, "the result of these actions against banks doing business with the DPRK being that criminal activities go underground and harder to trace, and legitimate businesses either give up, or end up appearing suspicious by being forced to use clandestine methods."

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II. Essay by Nigel Cowie

- US Financial Allegations - What They Mean
by Nigel Cowie

Introduction

Introduction - thank you for coming to this presentation sponsored by EBA. My name is Nigel Cowie, I'm GM of DCB, and I'd like to take this opportunity to address with you the recent financial allegations and actions against the DPRK by the US Treasury. Where they have acted against specific companies, I can't make any comment, except perhaps that we have not seen any evidence of any wrongdoing by them, because I don't know anything about those cases, but I can tell you what they mean in the case of our bank and the budding legitimate foreign business community in the DPRK which we serve.

May I quickly first say a few words of introduction about me and about Daedong Credit Bank, our customers and their activities, before moving on to the US financial allegations and measures; and then address the use of cash in the DPRK, as this is important with regard to the financial allegations, then address the allegations themselves. I would also like to end by throwing in a few suggestions of our own.

DCB

Daedong Credit Bank is a majority foreign-owned, and foreign-managed joint venture commercial bank, providing standard, high street banking services in foreign currency to foreign-owned or invested commercial business customers - current accounts, remittances, foreign exchange and lending. Most of our customers are importing goods, these may be the consumer goods on sale in the hard currency shops, or larger scale commodities, mainly food related; also raw materials, in the case of the joint venture companies. A very few are exporting, mainly perishable goods like seafood and agricultural products where they need to receive payment before goods arrive. However, we are not allowed to operate accounts for state-owned companies, and since these are the ones handling high value exports like minerals, most of our remittance business consists of outward remittances to pay for imports.

Financial Measures

On 15 September last year, the US Treasury announced the designation of Banco Delta Asia, Macau, as a "primary money laundering concern" in connection with transactions for DPRK customers, and proposed steps to deny the bank access to the US financial system. BDA immediately suspended all transactions with its DPRK customers and shortly thereafter voluntarily handed over management to the Macau Monetary Authority. The balances of these customers were transferred into special suspense accounts pending the outcome of various audit and other investigations. These investigations have now been completed, although the results have not been made public, and it is still not clear if and when the balances will be released.

Subsequently, other overseas banks closed the accounts of their DPRK bank customers, after receiving warnings from the US Treasury.

When we asked them, one of our correspondent banks explained that 'This was an across-the-board

policy decision due to external developments/factors, as you may be aware of, where present or future requirements may preclude us from our ability to service the accounts in an efficient manner'.

However, US Treasury Department Under Secretary Stuart Levey is quoted in Newsweek last week as saying that as more business people and governments learn about the risks of dealing with the DPRK, the campaign will have a 'snowballing ... avalanche effect'.

In this regard, he would appear to be true. We have heard from foreign customers conducting legitimate business here, who have been told by their bankers overseas to stop receiving remittances from the DPRK, otherwise their accounts will be closed.

Cash - a Key Point

Now, the way most of these customers get paid by local buyers is in cash. They bring the cash to the bank, we check the cash for counterfeits and credit it to their accounts with us. Then at the end of the month or whenever, we remit the funds out to their suppliers overseas. But because they are mainly importing, we tend to accumulate cash here in Pyongyang, and sometimes have to physically deliver it to banks overseas. There is nothing in any way tainted with this cash, and it is not counterfeit, it represents funds from legitimate business activities by legitimate customers, and the only reason it comes in cash is because of the peculiar circumstances in the DPRK.

Irrespective of whether or not any illegal activities went on, other banks in the DPRK will have the same problem, whereby they have to make cash deposits overseas.

We have the most updated equipment, as well as highly experienced cashiers, for detecting counterfeit notes. While we do come across them, they are not that common. And, contrary to many perceptions, it is possible to detect the so-called 'supernotes'.

All the banks in the DPRK, so far as I am aware, view counterfeit notes as a nuisance, as, just like anywhere else, people have to have confidence in the cash they are handling. When the 'supernotes' first appeared, our staff worked closely with those of Daesong bank and the Foreign Trade Bank to find ways of detecting them.

Banco Delta Asia

DPRK banks have, as the Treasury announcement correctly observed, been using Banco Delta Asia for decades. One of the reasons for that is because they were prepared to provide banking services to DPRK customers, but also *because they accepted cash transactions* .

Mongolia story

One further incident occurred specifically to us, which I would like to relate, and you can draw your own conclusions.

At the end of last year, we opened new accounts with Golomt Bank of Mongolia, in Ulaanbaatar. We discussed in detail with them procedures for handling cash transactions in a legally correct manner, as well as providing them with a copy of our anti-money laundering procedure manual, a manual that, incidentally had been accepted by our other correspondent banks.

On 21 February, our designated couriers transported a cash deposit to Mongolia, consisting of USD1 million and JPY20 million; the couriers were met, as previously agreed, by Golomt Bank officials together with local police at Ulaanbaatar International Airport. However, the couriers were then detained by Mongolian intelligence agents who took them, and the cash, to the Bank of Mongolia

(central bank); the couriers were accused of importing counterfeit currency.

DCB's couriers were detained outside the Bank of Mongolia for most of the night, whilst the intelligence agents claimed to be checking the authenticity of the cash. The next day they alleged that USD61,700 was suspected to be counterfeit; the alleged fakes were sent, together with two additional notes randomly taken from each remaining USD10,000 bundle of cash, for further examination at an unspecified location.

On 22 February the Mongolian press carried false reports, based on a leak, to the effect that "North Korean diplomats had been intercepted smuggling USD1 million and JPY200 million (not JPY20 million) into Mongolia". These reports were subsequently carried by international news agencies.

Our Treasurer was dispatched to Mongolia, where he was subsequently joined by me, to protest this action and demand the return of its funds.

On 7 March, after holding the cash for 14 days claiming they were still checking it, the intelligence officials in a meeting with us finally conceded that all the notes were genuine; the cash was released. The money was deposited with the Golomt Bank of Mongolia on 9 March, as had originally been intended.

By the way, I would like to add that this is not a complaint against the Mongolian authorities. All the meetings I attended were most cordial, and I had the impression that all the officials I met were just trying to do their job. At the final meeting with Mongolian intelligence, they appeared rather embarrassed that they had been given incorrect information.

Effects of these Moves on DCB

Once again, I can only speak for DCB, and don't know what Banco Delta Asia was doing with other customers. For our part, we are only conducting legitimate business, but have nonetheless been seriously affected by these measures. A large amount of our and our customers' money - not just in USD, but in all currencies - has effectively been seized, with no indication of when they'll give it back to us.

This makes it more difficult to manage the bank's working capital, as well as that of those customers whose money was frozen. It has subsequently resulted in a sharp fall in turnover - more than 50%, I estimate - as customers' own working capital is tied up, and they are reluctant to continue using the banking system in case something like this happens again.

It has also obliged us to expend great efforts to find new bank accounts, and make our side of the story heard to protect our and our customers' business. It has also greatly increased the cost of operations as the banking transactions have become more complicated.

So, there is a clear effect on legitimate business. I can't speak about the illegitimate business, because we don't have any, but I would imagine that anyone conducting illegal business could find a way around this, because they don't have to comply with internally instituted procedures like we do. For example, I was approached by someone overseas offering to take cash deposits of any size we like, and have it re-sent on to wherever we want in consignments of less than \$10,000 so that they are not spotted by overseas banks' money laundering detection procedures. I declined this offer because we are not about that sort of banking.

Which brings me to the point that there is a danger of legitimate businesses being squeezed into routes that are more normally used by real criminals, and the result of these actions against banks doing business with the DPRK being that criminal activities go underground and harder to trace, and

legitimate businesses either give up, or end up appearing suspicious by being forced to use clandestine methods.

Suggestion

We and other EBA members are trying to make an infrastructure for normalizing economic relations with outside world, this not helping.

During a March 7 interview with *Arms Control Today* , Michael Green, until recently President George W. Bush's National Security Council senior director for Asian affairs, stated that The United States will continue to take action against illegal North Korean activities regardless of the six- party talks' status, he said. But he added that Washington thinks such measures complement the talks by forcing Pyongyang to turn to legitimate economic activities for revenue.

Our point is that that may be impossible.

The US Treasury department's full report on Banco Delta Asia, as reproduced in the Federal Register (20 September 2005) states that 'It is difficult to determine the extent to which Banco Delta Asia is used for legitimate purposes. Although Banco Delta Asia likely engages in some legitimate activity, the [Treasury] Secretary believes that any legitimate use of Banco Delta Asia is significantly outweighed by its use to promote or facilitate money laundering and other financial crimes.

I would far rather get everything out in the open, reporting full details of all our transactions to any monitoring authorities that need to know, that way there is nothing to hide, all parties are satisfied, and everything is legal, open, transparent and respectable.

I am quite sure that the other DPRK banks would be willing to do the same. Indeed, at a meeting on 7 March between US Treasury officials and the DPRK's deputy Director-General for North America, Mr Li Gun, Mr Li proposed that the DPRK be allowed to open a USD bank account with a US bank - something we also would support.

III. Nautilus Invites Your Responses

The Northeast Asia Peace and Security Network invites your responses to this essay. Please send responses to: napsnet-reply@nautilus.org . Responses will be considered for redistribution to the network only if they include the author's name, affiliation, and explicit consent.

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