



Regional Hubs of Illicit Trade: The Tri-border Area

HUBS OF ILLICIT TRADE (HIT) PROJECT

Regional Report

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ACRONYMS AND ABBREVIATIONS

AIS	Automatic Identification System
AMIA	Asociación Mutual Israelita Argentina
AML/CFTP	Anti-Money Laundering and Countering the Financing of Terrorism and Proliferation
BNC	Bala na Cara
CIOF	Centro Integrado de Operações na Fronteira
COAF	Conselho de Controle de Atividades Financeiras
CV	Comando Vermelho
EL PAcTO	Europe-Latin America Assistance Programme against Transnational Organised Crime
FARC	Fuerzas Armadas Revolucionarias de Colômbia
FATF	Financial Action Task Force
FNCP	Fórum Nacional contra a Pirataria e Ilegalidade
FP	Federal Police
FTZ	Free Trade Zone
GAFILAT	Grupo de Acción Financiera de Latinoamérica
GDP	Gross Domestic Product
GTG	Global Trading Group
HVT	High Value Targets
IMF	International Monetary Fund
LGBT+	Lesbian, Gay, Bisexual, Transgender, Queer or Questioning Persons or the Community
LPR	Automated Licence Plate Recognition
ML	Money Laundering
ML/TF	Money Laundering / Terrorism Financing
NGO	Non-governmental Organization
OC	Organized Crime
OCG	Organized Criminal Group
OECD	Organization for Economic Cooperation and Development
OFAC	Office of Foreign Assets Control
PCC	Primero Comando da Capital
PGC	Primero Grupo Catarinense
PRF	Polícia Rodoviária Federal
SARS	Suspicious Activity Report
TBA	Tri-border Area
TBML	Trade Based Money Laundering
UK	United Kingdom
UNDP	United Nations Development Programme
UNODC	United Nations Office on Drugs and Crime
US	United States
USA	United States of America
VASP	Virtual Asset Service Provider
VAT	Value-added Tax
WCO	World Customs Organization
WHO	World Health Organization
WTO	World Trade Organization

EXECUTIVE SUMMARY

This “Tri-Border Area: A Hub of Illicit Trade with Global Impact” report is part of the Hubs of Illicit Trade Project, an initiative launched in 2022 by the Terrorism, Transnational Crime and Corruption Center (TraCCC) and the Anti-Illicit Trade Institute (AITI) at George Mason University. This comprehensive report provides key findings and insights into the nature and characteristics of the illicit trade carried out in the Tri-border Area (TBA) between Argentina, Brazil, and Paraguay, as well as its role as a significant contributor to the global illicit economy.

The examination of key points underscores the TBA's pivotal role within the global illicit trade network. Situated strategically with long, often isolated, porous borders that are challenging to monitor, along with the presence of urban centers and an impressive infrastructure of roads and airports, it has emerged as an attractive operational base for criminal entities and a complex hub of illicit trade. Illicit flows in the region are also facilitated by a diverse set of licit and illicit actors and an enabling environment of corruption, money laundering, and the presence of free trade zones. Consequently, several interconnected black markets originate, transit through, or terminate in the TBA. Evidence suggests that multiple illicit goods trafficked to/from/via the TBA are often part of the same shipment. In other words, they share the same routes and means of transportation, differing only in their final destinations. Illicit goods, like arms and drugs, tend to be hidden amongst and moved with the huge flux of licit cargo traversing the region.

Given the enormous diversity in illicit commodities that flow through the TBA, this report chose to focus solely on the movement of a high-risk, high-reward product - i.e., drugs (specifically cocaine and marijuana) on the one hand - and a low-risk, high-reward product - i.e., cigarettes - on the other. Cocaine was seen to function as a key driver of organized crime in and beyond the TBA. It facilitates corruption, high rates of homicide, money laundering, and fraud, as well as contributing to border-monitoring challenges and the high levels of lethal violence practiced by both OCGs and security forces. Over recent years, the Brazilian criminal group, the First Capital Command (PCC), has emerged as a key security concern in the region as it has consolidated its control over the cocaine trade in the TBA. Data shows that Brazil functions as a destination and a transit point for cocaine sourced from the Andean region via the TBA. The use of small aircrafts to move cocaine into Brazil has increased since the pandemic. Overall, there has been a rise in the amount of cocaine being moved into Brazil but a drop in the amount being sent out into the international market from the country, possibly due to Covid-19 related restrictions which made moving the drug from the western coast of the country to the seaports on the Atlantic Ocean difficult. However, once at the seaports, cocaine is transported using a variety of modes ranging from contaminated containers to ships and (semi)submersibles towards Africa, Europe, and beyond. The TBA's, and more specifically Brazil's, evolving role in the international cocaine trade seems to be linked to the expanding role of PCC in the region. Argentina's, and increasingly Uruguay's seaports are also being exploited for cocaine shipments. Traditional ports in Colombia that were used to move cocaine out of the region are being progressively sidelined for those in Brazil, Argentina, and Uruguay.

Brazil represents the largest cannabis market in Latin America. Paraguay is not only the main source of the drug for Brazil and regional countries, but also the largest producer of marijuana in South America today. Over ninety percent of Paraguay's cannabis farming is concentrated in the northeast of the country along the 438 km of the dry border with Brazil. Marijuana production is closely linked to a corrupt local political structure in the TBA that benefits from the illegal cash flows associated with drug trafficking, and the region plays a critical role in moving the drug into Brazil, Argentina, and Uruguay. Marijuana transport is also associated with the so-called 'ant trafficking' where small amounts of the illegal drug are moved, both within Paraguay as well as into neighboring countries, by individuals using whatever limited means they may have available. PCC is heavily involved in the transport of marijuana from the TBA into Brazil, using both land and air. While cocaine smugglers turned to the use of clandestine aircrafts and airstrips during the pandemic, marijuana smugglers moved to more remote areas further away from the center of the TBA. Thus, cities in the north of Brazil became entry points for Colombian marijuana arriving by boat through Venezuelan waterways while, in the south, the state of Rio Grande do Sul became a new trafficking point for Paraguayan marijuana in 2020. The result was an overall increase in marijuana imports into Brazil. All shipments - local (marijuana and cocaine) and international (of cocaine) - of illicit drugs, share routes and means of transport with other illicit and/or licit goods. For instance, we often see drugs shipped using the same routes as tobacco or arms.

Paraguay functions as the linchpin in the illicit trade of tobacco products to countries in the Southern Cone and beyond. More significantly, the TBA is central to Paraguay's cigarette smuggling operations. There are numerous reports that at least 65 billion cigarettes are manufactured in Paraguay every year, but the country only consumes about 2.5 billion cigarettes annually. The rest are smuggled to countries across the region, particularly Colombia, Brazil, and Argentina, where the much higher taxes on tobacco products allow the traffickers to undercut legal competitors. Significantly, the illicit trade in cigarettes not only uses the same logistics and routes as arms and drugs trafficking, but tobacco smugglers also operate in the same criminal market - and may even be the same - as those involved in cargo robbery, bank robbery, illicit arms, and narcotics trade, etc. The very nature of cigarette smuggling involves large volumes of cargo. As a result, routes that connect the border areas (i.e., the entry points) to large centers (i.e., the destination points) are increasingly targeted by the authorities. As a result, traffickers are developing very sophisticated logistical structures, including using alternative routes, diversifying routes, and using warehouses and depots for regional distribution and to minimize risks and losses. Given that much of the cigarette trade enters Brazil from Paraguay, the use of roads and the dry border zone is central to this smuggling logistic. There were some interesting variations in trends observed over the course of this research. During the pandemic in Argentina, there was a shortage of cigarettes due to the mandatory quarantine, resulting in factory closures, and the black-market cigarette trade surged. Consequently, from 25 April 2020 to 05 May 2020, Argentine authorities seized one-fifth of all contraband cigarettes seized in 2019. In Brazil, however, there was an overall drop in the number of seizures made in 2019 and 2020. This may have been a result of an overall fall in the quantity of cigarettes being smuggled into Brazil as the Covid-19 lockdown severely hampered established supply chains. The result was a migration towards legal brands of cigarettes in the country, with an increase in legal sales and a concomitant decline in the sale of illicit cigarettes.

This research identified many criminal organizations, mafias, and other actors involved with illicit activities with ties to and/or presence in the TBA. The presence of these actors is dynamic and ebbs and flows with time and shifts in broader patterns of illicit flows. Depending on the actor's strength, capability, and reach, they either have a direct presence/faction based in the TBA or even full-fledged headquarters. Key OCGs from Brazil, Argentina, and Paraguay all operate in the TBA. In addition to the local criminal groups from these three countries, police sources confirm the presence of both regional and international criminal actors operating in the TBA. The analysis of the terrorist threat emerging from the TBA and the crime-terror nexus in the region diverges considerably, in part because of variations in the classification of terrorism/terrorist organizations as well as core differences in the national policies of Argentina, Brazil, and Paraguay. However, there are clear linkages between proscribed international terrorist organizations, like Hezbollah, amongst others, and the TBA. Many of these linkages are ideological and/or financial, with sympathizers in the TBA providing both monetary and moral support to groups abroad. Another notable category of actors in the TBA includes actors that are linked to the state. In other words, they are either corrupt politicians, policemen, and judges or, in some way, part of the state's local or national governance structures. A final group of actors in the TBA are the hired hands and freelancers, essentially criminal entrepreneurs that conspire with traffickers involved in different illicit trades without formally belonging to a specific group or mafia.

In addition to the presence of this diverse range of actors, the TBA also has a series of characteristics that together create an environment conducive to the practice of illegal activities and help transform the region into a key hub of illicit trade. These include the TBA's unique geographic configuration, the presence of free trade zones, which have been increasingly identified as a "new emerging threat" in the financial sector, and the fact that all three countries suffer varying degrees of chronic economic instability, deep-rooted corruption in the government, police, and judiciary as well as drug-related violence.

Additionally, local market characteristics also contribute to making the TBA a key hub of illicit trade. The high volume of products that go through the region, the multiple free-trade zones, and a heavily cash-intensive local economy all contribute to blurring the lines between the white, grey, and black markets in the region. The current size of global illegal markets is enormous and expanding rapidly. According to some estimates, in 2020, the black-market trade already potentially represented around a third of the global GDP¹. This not only clearly demonstrates the criminal networks' ability to amass financial resources considerable enough to rival state capabilities but also their capacity to co-opt and corrupt legal institutions. This capacity also feeds into a worrying future trend of heightened levels of violence in the TBA, police on police wars, the expansion of specific criminal gangs, and growing alliances between big local criminal gangs and international criminal and terrorist networks.

We found that organized crime networks in the region are highly globalized and have the capacity to coordinate illegal activities on a global scale. These networks' high rates of innovation in tactics, capabilities, and information sharing allow them to rapidly adapt to change, quickly countering state responses. OCGs are increasingly heterogeneous, encompassing a growing number of diverse actors and thus becoming more fragmented and complex. Their networked globalized structure also encourages the outsourcing of criminality and increasingly interfaces with local markets and players. Thus, to counter this complex threat, we argue for a focused intelligence gathering effort and a patient, long-term, intelligence-led inter-agency response. This would be a collaborative, whole-of-society approach involving diverse governmental institutions and the active participation of the private sector, NGOs, and individuals. There is plenty of truth in the cliché that networked threats require networked responses. Thus, appropriate policy measures must involve and coordinate local, national, regional, and international responses.

KEY POLICY RECOMMENDATIONS

1. Policy responses to combat illicit trade in the TBA should be coordinated at the local, national, regional, and global levels while also aiming to provide a networked response.
2. They must also identify their key capabilities and needs, develop a variety of strategies to explore illicit network vulnerabilities, and disrupt their critical functions. This requires integrated response across a wide range of institutions, sectors, and areas.
3. Policies should work towards simultaneously supporting friendly networks, influencing neutral networks, and neutralizing criminal networks.
 - Supporting *friendly networks* involves building partnerships with individuals, NGOs, and private organizations that are willing to cooperate with law enforcement and other authorities.
 - Influencing *neutral networks* involves identifying and addressing the factors that may be unwittingly facilitating illicit trade, such as corruption, weak governance, and lack of awareness.
 - Neutralizing *criminal networks* involves disrupting their operations and dismantling their infrastructure through targeting high value targets (HVTs), which are individuals, groups, functions, or operations that have significant importance or value and whose loss or disruption can have a substantial impact on the criminal network's overall function or performance.

A NOTE ON THE METHODOLOGY

This report amalgamated historical information and relevant data on illicit flows from various primary and secondary sources. Primary sources included official reports and databases from law enforcement agencies, international organizations, and governmental bodies that publish data on illicit flows. This included data on drug seizures, cybercrime incidents, arms and drug confiscations, and other related activities. Datasets were augmented with interviews with experts in law enforcement, cybersecurity, criminology, and international commerce who have direct experience with investigating or dealing with illicit activities. Interviewees were carefully curated to access individuals with current information on the region. Given the sensitive nature of this work, nearly all individuals who consented to be interviewed requested to remain anonymous so as not to compromise their own positions. However, the authors made a unilateral decision to keep all interviewees anonymous to avoid any possibility of identification and to ensure full respondent privacy and confidentiality while also adhering to the ethical principle of no harm. All interviews conducted were semi-structured with single respondents (in-depth interview) and open-ended. In some cases, the authors followed up with the interviewed individuals one or more times for clarification and/or elaboration. All data gathered from interviews was triangulated, as far as possible, for reliability and accuracy.

Secondary data sources included open-source intelligence (OSINT) techniques applied to publicly available information from online forums, social media, and websites, as well as reports published by international organizations or NGOs such as the UNODC, EUROPOL, or INTERPOL. Additional secondary source data used in this report included academic studies such as research papers, case studies, and reviews, as well as news articles, investigative reports, and journalistic investigations.

In compiling this information, the authors are aware of the potential for information bias. It is important to understand the limitations of such a study and consider the difficulties in obtaining accurate information because of the covert nature of the research object. The veil of secrecy shrouding the groups investigated and their operations posed a significant challenge in the quest for data. Transnational criminal enterprises, underground economies, and clandestine political movements thrive in the shadows, intentionally concealing their functions from public scrutiny. The clandestine nature of these groups results in the inherent paucity of accessible reliable data. Traditional data sources such as official records and public reports often fail to capture the nuances of these secretive activities. This problem is twofold: the difficulty of finding information and the bias that arises from the unequal distribution of information across different regions, groups, cases, etc. These lead to possible distortions in the results and interpretations of the findings. To mitigate these risks, validation techniques were employed when compiling the data used for this research. Internal consistency checks were conducted to ensure that the collected data were consistent. The interviews were also used for expert validation to provide insights into the accuracy of the data collected. Further, whenever possible, all data were cross validated through triangulation and by comparing data and evidence from multiple sources to verify consistency and accuracy. Finally, ethical concerns were considered, especially when dealing with sensitive data-related interviews and criminal activities. This included anonymization, protection of the identities of sources and subjects, and adherence to legal and ethical standards such as the Belmont Report recommendations.

1. INTRODUCTION:

The 'Tri-Border' area, commonly referred to as the triple frontier, is the border region encompassing areas from the three countries of Argentina, Brazil, and Paraguay. The TBA is centered in three key cities, one in each country - Puerto Iguazú in Argentina (located in the province of Misiones), Foz do Iguaçu in Brazil (located in the state of Paraná), and Ciudad del Este in Paraguay (located in the administrative department of Alto Paraná). The region also represents the geographical intersection of two major rivers of this region, namely Rio Paraná and Rio Iguaçu, which essentially function as the frontiers between these three countries. The Rio Iguaçu separates Argentina in its south from Brazil, which lies to its north, while Paraguay lies to the west of Rio Paraná². Geographically, this confluence also overlaps with the epicenter of the Guaraní aquifer, one of the largest freshwater reserves of the planet³, and one that has been described as the "heart of Mercosur"⁴. The significance of this natural resource is augmented by the Itaipú dam which was constructed over a ten-year period from 1974 to 1984. As has been pointed out, the population of this region went from 60,000 inhabitants when construction began in 1974 to 700,000 inhabitants in 2001⁵. In 2021, the total population of the TBA sat at approximately 950,000 people⁶.

The TBA is a unique space in that it combines the benefits of porous, isolated, hard-to-access/monitor borders with the presence of urban centres which provide nefarious actors access to telecommunications, the internet, transport facilities, banking services, and a host of illicit actors and goods. Ciudad del Este is the second largest city in Paraguay, after the capital Asunción. It is known as an economic hotspot and for its diverse population. Like the rest of Paraguay, the city is home to various ethnic communities, including Italians, Russians, Japanese, Germans, Chinese, Arabs, Brazilians, and Argentinians. Brazilians represent one of the largest immigrant groups in the country numbering approximately 400,000 (Fogel, 2008). Ciudad del Este is connected to the Brazilian city of Foz do Iguaçu through the Puente de la Amistad (the Friendship Bridge) and via it to the Argentine city of Puerto Iguazú through the Puente Tancredo Neves (The Fraternity Bridge) that is the land connection between Brazil and Argentina. The Rio Paraná and Rio Iguaçu represent the water connection between Ciudad del Este and its two larger neighbors. The two cities of Ciudad del Este and Foz do Iguaçu represent the main axis of the bustling economic activity - both licit and illicit - that occurs across the TBA.

Brazil's Foz do Iguaçu, like its Paraguayan urban counterpart, is also known for its enormously heterogeneous population, including Chinese, Arabs, Germans, Italians, Paraguayans, Argentinians, French, Swedes, Portuguese, and Ukrainians. In both cities, an estimated 90% of the Arab population is of Lebanese origin⁷. It is worth noting that the Arab population in this region has been present since the beginning of the 20th century. It has been central to its development and originates mostly from present-day Syria, Lebanon, and Israel/Palestine. Some other ethnic minorities located in the region are Iranians, Indians, Koreans, and Thais⁸. This enormous heterogeneity gives the region its distinctly multicultural and ethnically diverse characteristics.

Amongst the three cities, Argentina's Puerto Iguazú is less integrated and more geographically remote from the Ciudad del Este and Foz do Iguaçu axis. It connects to Ciudad del Este via ferry and the land link via The Fraternity Bridge to the Brazilian city of Foz do Iguaçu. This crossing is much more tightly controlled than other border crossings in the region, placing, relatively speaking, greater restrictions on human and commercial flows⁹. Having said that, all parts of the TBA, including Puerto Iguazú, are strongly linked to legal and illegal international trade networks.

There are many similarities between the three urban centers of this region. For one, as described above, they are all ethnically and culturally diverse due to the heterogeneity of the population. However, despite this heterogeneity, most traders and business owners in the region, especially in the Ciudad del Este and Foz do Iguaçu axis, are of Arab origin, with the Chinese-Taiwanese community following close behind. All three cities are also rich in natural resources. Furthermore, all three cities are economically dynamic urban centres which have experienced accelerated rates of growth. This feature in itself not only attracts large flows of migrants but also the flows of both licit and illicit commodities¹⁰.

In addition, there are a series of characteristics specific to the TBA that make it such a vibrant hub of illicit trade. For one, its legal and illegal economic activity is facilitated by an environment of weak institutions and widespread corruption. Second, the region's economy is hugely buoyed by tourism. Thanks to the natural wonder that is the Iguaçu Falls, the TBA is part of a bustling tourist circuit - an advantage further consolidated by the presence of two free trade zones (Ciudad del Este and Puerto Iguazú). The city of Ciudad del Este is an attractive tourist destination for its tax-exempt shopping. Patrons can buy everything from original Armani gear to cheap knockoffs and counterfeits. An AK-47 Russian assault rifle, for example, can be bought for a mere US\$250¹¹. The five most prominent currencies circulating in the TBA are the real, the peso, the guaraní, the dollar, and the euro¹². Third, the presence of a heterogeneous migrant population also facilitates remittances to and from this region, and especially to countries like Lebanon.

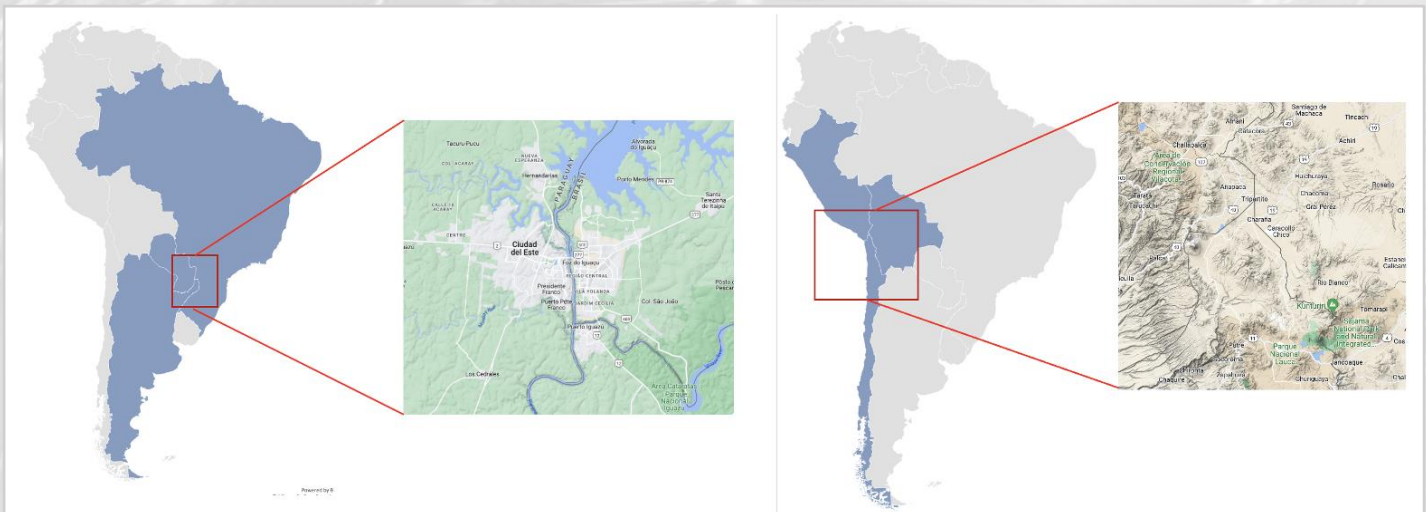
In fact, Ciudad del Este, thanks to its economic movement and free trade zone status, has been reputed to generate anywhere between 14-15 billion dollars annually in commercial transactions, making it the third largest free zone after Miami and Hong Kong ¹³. This varied economic activity is supported by an impressive infrastructure of roads, and airports, with three international airports that connect the TBA to main cities across the Mercosur and the rest of the world. The banking system (with one count in 2006 identifying 55 banks in Ciudad Juárez alone) connects the region to the global financial system ¹⁴. At the same time, the prevalence of porous borders and mobile populations make monitoring and controlling illegal activity in this region extremely challenging for all three states concerned.

It is important to underscore the role of Paraguay as a source country for illegal trade and activities in Brazil and Argentina. Brazil, in turn, with its large population and porous borders, represents a key destination for smugglers and traffickers. Brazil's immense maritime coastline and large trade flows with developed nations also allow it to function as a key regional transit country.

It is worth noting that more recently, there has been some talk of a 'new TBA' because Bolivia is emerging as a key linchpin in the north of the country, taking full advantage of the dense and difficult to monitor Amazon rainforest to route goods through and into Brazil. The new TBA covers the three countries of Peru, Bolivia, and Chile and includes northern Chile (Arica and Iquique), southern Peru (Tacna and Puno) and extends into Bolivia (from El Alto to the Iranian Embassy in La Paz). More recently, Venezuela has also begun featuring quite prominently in this dynamic of illegal flows. Bolivia and Venezuela, two of the poorest countries in South America, are emerging as key sources of various illegal products.

Human trafficking has been growing in the north of Brazil as citizens from Bolivia and Venezuela move outwards, seeking jobs, better wages, and a better life in general. The Brazilian towns of Cuiabá and Corumbá in Mato Grosso do Sul, close to the Bolivian border, are emerging as key hubs for cross-border smuggling in this region. These towns see the movement of a variety of illicit goods - from textiles, cattle, drugs, weapons, and gasoline to human trafficking. Puerto Quijarro, just 10 kilometers across the border inside Bolivia, forms a triangle with Santa Cruz de la Sierra and Puerto Suárez. This region functions as the counterpoint of the Brazilian towns of Cuiabá and Corumbá for smuggling goods ¹⁵.

Map 1: Old vs New TBA



Source: Elaborated by the authors

2. NATURE AND KEY CHARACTERISTICS OF THE ILLICIT TRADES CARRIED OUT IN THE TBA:

Corruption, contraband, falsification, money laundering, drug trafficking, and trafficking in arms and people are seen as the most common crimes in the TBA. It has been argued that these activities help move dirty money into the white market in the region. Legalized assets, in turn, facilitate and fund illegal activities, generating a feedback loop between the legal and illegal markets in what has been described as ‘cyclical reciprocity’¹⁶.

Transnational criminal and terrorist activity in the TBA follows the same logic of feedback. Contraband and money laundering stand out for providing the necessary conditions for criminal and terrorist groups to expand and intensify their other unlawful actions. Therefore, a range of different transnational actors, for instance, those engaged in arms or drug smuggling, utilize the same routes to also transport money and other illicit goods¹⁷. In other words, these crimes complement one another, and we regularly see how illicit goods are exchanged (for instance, drugs for weapons) with the result that different kinds of criminal activity benefit and support each other in a pattern of convergence¹⁸.

Licit trade in the TBA: Overall volumes and values

The tri-border area between Brazil, Argentina, and Paraguay is a region of significant economic and commercial activity, with a growing licit trade that has been gaining prominence in recent years. The TBA is a significant hub for international trade, and the region is known for its abundant natural resources, strategic geographical location, and favorable trade policies, making it an attractive destination for businesses and investors. Most regional trade is conducted by road, with the region's extensive network of highways and bridges connecting the three countries. In addition to road transportation, the TBA is also served by several international airports and seaports, providing businesses with various options for moving goods and people.

The numerous dry ports and customs stations within the TBA have been instrumental in facilitating international trade. The tri-border region is home to several specialized trade zones, such as the Tri-Border Industrial Park in Ciudad del Este and Foz do Iguaçu's dry port (previously known as Estação Aduaneira do Interior). These zones offer tax incentives and other benefits to businesses operating in the area, helping attract foreign investment and drive economic growth in the region. The Foz do Iguaçu dry port is the largest port in Latin America in terms of cargo movement. In 2022, the value of cargo cleared at the dry port of Foz do Iguaçu alone was approximately US\$6.5 billion, with US\$3.7 billion in exports and US\$2.8 billion in imports. These amounts represent an increase of 12.90% in 2022 compared with 2021. The main products and services traded in the region include agricultural commodities such as rice, soybeans, corn, wheat, meat, iron, wood, fish, fruits, garlic, olives, cellulose, beans, and manufactured goods such as automotive vehicles and parts, agricultural machinery, electronics, textiles, cement, and fertilizers (see Table 1).

Illicit trade in the region capitalizes on this robust infrastructure established for legal commerce. Beneath the surface of legitimate commerce lies a complex web of criminal actors who strategically exploit the loopholes, inefficiencies, and porous nature of the licit trade infrastructure, leveraging it as a conduit for various illicit activities.

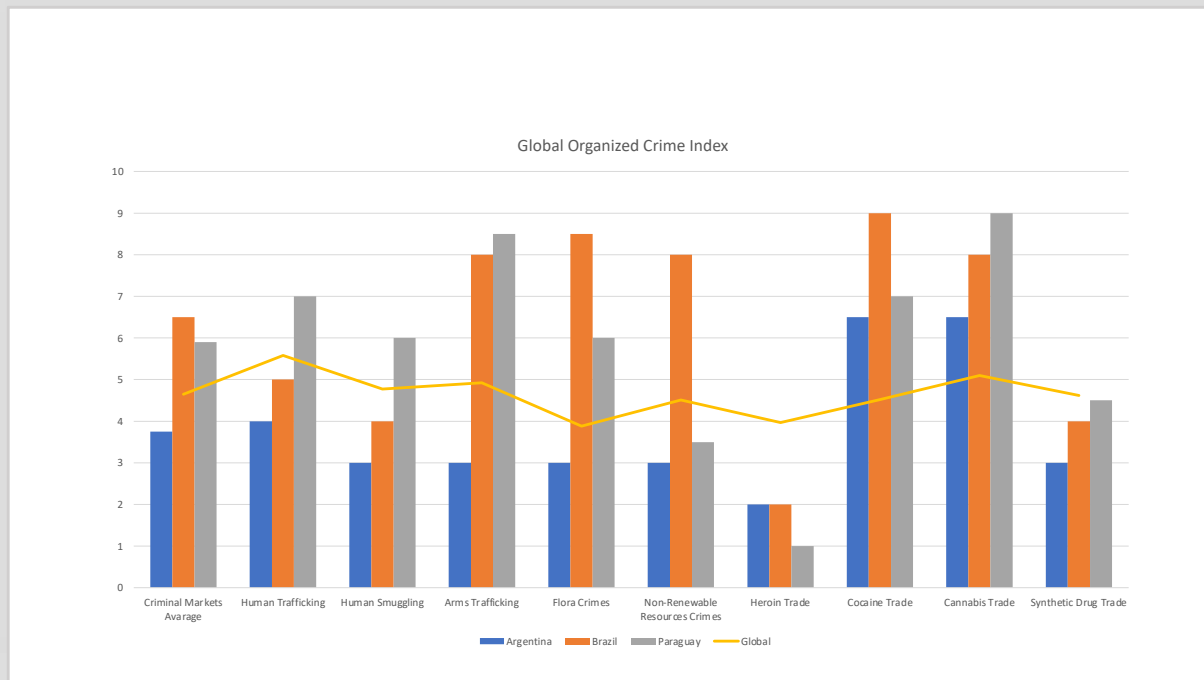
Table 1: Overview of key types of licit, grey, and illegal commodities passing through the TBA

Licit Goods	Semilegal (Grey) Goods	Illicit	
		Goods	Services
Soybeans (Paraguayan)	Tobacco/Cigarettes	Arms	Money Laundering
Electronics and electronic parts (machines, appliances etc.)	Electronics (mobile phones, notebooks, netbooks, cameras, televisions, game consoles etc.)	Drugs (marijuana, cocaine, synthetic)	Forgery and falsification (esp. documents)
Tourism	Items for Personal Use - Cosmetics, Clothes, Shoes, Handbags	Counterfeits (Items for personal use including cosmetics, medicines, electronics, PPE, cigarettes)	Tax Evasion
Wood, wood pulp, cork, and other fibrous cellulosic material		Human Trafficking and Smuggling	
Electricity*		Flora and Fauna	
Mate (Herbs)		Soybeans (Brazilian)	
Stones, cement, and minerals		Stolen cars	
Ceramic and glass		Alcoholic beverages	
Plastic and plastic-related material (including rubber)		Pesticides	
Metals		Food	
Chemicals and chemical precursors (especially pesticides)		Tyres	
Textiles		Toys	

*It is worth remembering that the Itaipú dam is the world's largest hydroelectric power plant in terms of electrical production capacity.
Source: Authors as compiled from the data

In other words, the expansive network of ports, customs stations, and transportation routes established for legal trade also serve as the perfect entry and exit points for illicit goods into the international market. The same logistical channels, which serve as nodes for the movement of legitimate goods, inadvertently offer avenues for smuggling illicit products worldwide. Moreover, the sheer volume and diversity of goods traversing the region functions to camouflage illicit trade. With a myriad of products flowing across borders, authorities face challenges in effectively monitoring and inspecting consignments. This loophole is exploited by illicit traders who cleverly hide their illegal goods in the vast array of legitimate merchandise, evading detection, and interception. Furthermore, the region is marked by a large number of cash-intensive commercial businesses, characterized by a high volume of cash transactions and informal financial systems, providing a particularly conducive environment for money laundering. The region generally suffers from higher than global averages for most illicit trades (see Figure 1).

Figure 1: Organized Crime Index Global vs. TBA



Source: Elaborated by the authors based on the Global Organized Crime Index, Global Initiative Against Transnational Crime, 2022.

Routes of Illicit Trade

Generally speaking, the movement of contraband and illegal goods across these borders uses a combination of land, air, and water transport routes. Paraguay is a landlocked country. However, it still maintains a navy to monitor its vast river network. Similarly, a network of rivers and small streams connect Argentina to its northern and western neighbors. Of course, as the largest country in South America, Brazil shares an enormous land border with Paraguay (approximately 1,339 km) and Argentina (approximately 1,224 km).

Focal Point: The formal crossings and the porous borders of Rio Paraná and the Itaipú dam reservoir

The best way to understand the key modes of transport and routes used in this region - especially for illicit goods - is to visualize it in concentric circles. The first thing of note is the sheer porosity of this formal border crossing. On a normal day, approximately 30,000 to 40,000 people and 20,000 vehicles cross the Puente de la Amistad between Brazil and Paraguay. Both residents and tourists in Ciudad del Este regularly cross between Paraguay and Brazil on foot, often without documents. Border controls by authorities have generally been limited to simple checks, with less than 10 percent of personal baggage or vehicle loads being checked ¹⁹. Customs at this border crossing are reportedly enforced only from the Brazilian side and only at certain times of the day, targeting those crossing the bridge with an obvious and excessive load. Pedestrians and more inconspicuous motorists tend to be ignored. From the above numbers, it is clear that thousands make the 15-minute journey between Ciudad del Este and Foz de Iguaçu every day, transporting passengers and/or cargo between these two cities with incredible facility. At night, movement is even easier as all vehicles, barring trucks and other heavy vehicles, circulate freely, irrespective of whether they carry a load ²⁰.

Many who cross the Puente de la Amistad are small-time traders, known locally as the sacoleiros (derived from the Portuguese 'sacola', which means 'bag'). Named for the shopping bags they carry, these small-time traders represent most of the individuals crossing the bridge on a daily basis. It is worth remembering that not only are Paraguay's import duties significantly lower than Brazil's, but also that Ciudad del Este's airport receives enormous quantities of cargo from Asia, which is ultimately destined for Brazil. As such, most of these small-time sacoleiros make a living via illicit international arbitrage, i.e., they buy cheap goods in Paraguay, which they then sell for a higher price in Brazil's Foz de Iguaçu ²¹. Above these small-time sacoleiros are the criminal organizations operating in and beyond the TBA in a vast and dynamic network of allies and competitors. These criminal organizations are engaged in smuggling drugs, arms, cigarettes, and counterfeits to mention just some of the biggest activities in this region.

There is comparatively less traffic across the Tancredo Neves bridge to and from the Argentine city of Puerto Iguazú and Brazil's Foz do Iguaçu. This is not only indicative of the recent economic recession but also the result of the tighter new regulations issued by Argentina and Brazil ²². But even with this decrease, there were 1.2 million people (down from 3.4 million in 1999) and 222,669 vehicles (down from 350,751 in 1999) crossing this bridge annually in 2017 ²³.

If the permeability of the formal border crossing between Brazil and Paraguay is a cause of concern, then the porosity of the informal crossing is truly shocking. Clandestine ports pepper the shores of Rio Paraná - the water border between Brazil and Paraguay, operating in plain sight of the authorities from both countries. Much of the contraband passes between these countries using the waters of the Rio Paraná and the Itaipú dam reservoir (which is located 14 km north of Puente de la Amistad) ²⁴. Lake Itaipú provides an ideal geographical space for smuggling for a variety of reasons ²⁵. First, the lake functions as a natural border between Brazil and Paraguay, and its sheer size makes fluvial control challenging. The wooded terrain surrounding the lake on both sides also supplies traffickers with an ideal environment to conceal their merchandise. The privately owned monocultural farms on both sides of the lake are also difficult to monitor and provide smugglers with an ideal environment to store and move illegal goods. Finally, the entire region is peppered with numerous clandestine ports and piers that also facilitate smuggling across this extensive and porous water border.

The second layer: Rivers, streams, air, and land routes

From the key land and water crossings between these countries, we can move outwards to analyze the rivers, streams, and land routes used to move goods - legal and illegal - between these three countries. Often, state infrastructure is leveraged for the transportation of illicit goods in all three countries²⁶. Traffickers and smugglers use the ample private plantations along the TBA's main waterways to conceal their merchandise before transporting them to main highways and other land arteries. Numerous clandestine ports and airstrips support and augment the state-based infrastructure of roads, airports, bridges, and large boats. In some cases, such as in Argentina, the rivers offer easier access to the rest of the country and are thus the favored means of transport.

While specific illicit trades use, or at least privilege, the use of, specific modes and routes of transport, considerable crossover exists between them. We know, for instance, that depending upon the types of goods being transported, two or more commodities are often shipped together, frequently combining legal and illegal goods to mask the smuggling underway. This entire process is facilitated by corruption, with traffickers bribing customs officers, police, and navy officials along the entirety of the route. Some common shipment combinations seen in the TBA are arms shipped amongst clothes, electronic and computer devices, as well in/with toys. We also see large quantities of drugs, especially marijuana, shipped in false bottomed trucks, which are often used to transport legally traded wood and soybeans (from Paraguay to Brazil). Drugs are also transported along fluvial channels, which, as already mentioned, are difficult to monitor and/or control. For instance, during the harvesting season, Paraguay uses large flotillas of boats to move sizable shipments of soybeans across to Brazil, and many of these boats are often misused by local criminals and traffickers.

Moving further afield: TBA and the link to seaports across the region

The TBA is connected to two Brazilian sea ports, the port of Santos (close to the city of São Paulo) and the port of Paranaguá (in the state of Paraná). Geographically then, this triangle represents an important strategic space and, via the TBA, forms a bi-oceanic corridor linking the Pacific and the Southern Atlantic. These two seaports are key entry points for Southeast Asian, especially Chinese, goods that make their way through these ports, across Brazil, to the TBA, as well as into the whole of Argentina via the TBA. The importance of these ports is best underscored by the fact that most of the imported products sold in the market in Ciudad del Este either originate in China or claim to originate there ²⁷. In addition, goods originating in North America, for instance, Miami, come into the TBA via the three key ports of Santos (Brazil), Montevideo (Uruguay), and Buenos Aires (Argentina). Once again, goods land at a seaport before being transported via a combination of land, air, and water (rivers) routes to and through the TBA. The reverse route is also significant in that the goods get to the ports of Santos and Paranaguá from and/or via the TBA and, from there, head mainly to Europe. As Dreyfus stated in 2005:

"Paraguay, a landlocked country, has, by agreement with Brazil, free warehouses in the ports of Paranaguá (state of Paraná) and Santos (state of São Paulo). Both ports are the two busiest in Brazil and according to international practices and regulations, containers in transit to a third country cannot be opened until they reach their destination, unless there is a court order in this regard. Container transit in the Paranaguá-Foz de Iguazú corridor (both cities are approximately 600km apart connected by the BR 373 highway) is used, according to sources consulted, for the trafficking of weapons and ammunition that are then re-entered into Brazil from Ciudad del Este via river, land, and air". ²⁸

However, much has changed since 2005. Interviews²⁹ suggest that this dynamic has diversified somewhat in part because the route from Paranaguá and Santos to Ciudad del Este is becoming increasingly risky due to efforts by the Brazilian authorities. The widespread and deep-seated corruption in Paraguay has also made it relatively easy to fly illicit goods to and from Paraguay's key commercial airports, where they are rarely checked. This is certainly the case with arms. However, drug traffickers still actively target containers from Brazil's seaports, although once again, there is a shift in dynamics as port security, at least in the larger ports, is tightened. Now, these traffickers seek opportunities to contaminate containers as they move from the seaports inland and vice versa. The threat has become critical enough that in January 2022, shipping giants MSC and MEDLOG declared that they would suspend their inland operations across Brazil because of the growing risk from drug traffickers targeting the container trade ³⁰.

In terms of goods moving out of the TBA and into Brazil, smugglers use tracks across the Iguazu National Park on the Brazilian side of the TBA to access the network of municipal rural roads and Brazilian highways, which are then the main routes used by smugglers to take their products across Brazil. Most goods are destined mainly for the city of São Paulo, which serves as a major distribution center, and for Brazilian ports, mainly the ports of Santos and Paranaguá described above. There are other goods, such as pesticides, however, that make their way directly to other states as per the demand (e.g., Mato Grosso do Sul and Minas Gerais). As mentioned above, waterways - on a smaller scale - and small planes that land and take off from clandestine airstrips located in more remote regions are also routes for moving commodities out of the TBA. For the Brazilian side of the TBA, Table 2 shows the data on seizures by the Federal Revenue Service of Brazil and gives an idea of the path that smuggling takes in Brazilian territory ³¹. The table clearly shows that the Brazilian states bordering the TBA and São Paulo are the main distribution centers, especially for arms, ammunition, cigarettes, and electronics, and are the location for the highest amounts of seizures.

Table 2: Seizures by the Federal Revenue Service of Brazil, 2021

State	Illicit Markets for				
	Medicines	Alcoholic Beverages	Perfumes	Pesticides	Cigarettes
Paraná	78.76%	17.18%	57.54%	9.04%	29.86%
Mato Grosso do Sul	0.90%	4.10%	12.26%	10.23%	24.43%
São Paulo	8.77%	15.68%	7.28%	62.04%	16.60%
	Illicit Market for Electronics			Illicit Market in Automobiles	
	Electronics	Computers, Mobiles e	Videogames	Tyres	Vehicles
Paraná	14.21%	25.38%	39.82%	18.71%	7.39%
Mato Grosso do Sul	3.22%	2.47%	3.21%	19.72%	3.80%
São Paulo	20.19%	19.92%	19.47%	1.40%	2.07%
	Illicit Market for Clothes		Illicit Market for Arms		Planes and Boats
	Clothes	Sports Shoes	Arms	Ammunition	
Paraná	7.76%	12.29%	1.64%	20.59%	77.61%
Mato Grosso do Sul	1.24%	0.54%	0.21%	24.75%	3.30%
São Paulo	15.88%	27.38%	57.52%	25.12%	6.02%
General Total	Paraná 28,75%		Mato Grosso do Sul 22.73%		São Paulo 16.63%

Source: JHM Pesquisa, Censo Mercados Ilícitos: Brasil Tríplice Fronteira Sul a São Paulo (Abril 2021)

On the Argentinian side of the TBA, the border provinces of Misiones, and to a lesser extent, Corrientes and Formosa, are also peppered with clandestine airstrips that are used to smuggle goods into and out of the TBA. Much like the Brazilian side, the fluvial connection forms the main artery for smuggling although, clandestine airstrips are also used despite regular operations conducted against them by the Argentine military. The Paraná River runs from Misiones onto Buenos Aires and then the Atlantic Ocean, directly connecting the TBA to the Uruguayan seaport of Montevideo.

Finally, illicit goods come into Paraguay via land from the neighboring countries of Colombia, Bolivia, and Peru, taking full advantage of porous and poorly guarded borders to reach Paraguayan territory. Once in Paraguay, they use a combination of air, land, and water routes to get to the TBA and beyond. Large quantities of legal and illegal goods also arrive via the Silvio Pettrossi Airport in Asunción. The Paraguay River, which passes through Asunción, serves as a key smuggling artery for moving commodities south into Argentina. In fact, there is ample evidence that Asunción serves as a major transit hub for arms, drugs, and other illicit goods making their way through Paraguay and into Brazil, Argentina, and the rest of the world³². Goods are also transported to and from the port regions of neighboring countries such as Uruguay and Chile, making use of the Paraguay, Paraná, and Uruguay rivers.

Inside the TBA region on the Paraguayan side, Pedro Juan Caballero, El Salto del Guairá, Capitán Bado, and San Alberto are some of the most active cities in the illegal trade after Ciudad del Este. These cities are all characterized by their proximity to the River Paraná and/or Lake Itaipú and their participation in manufacturing illegal goods, e.g., cigarettes. Again, there is a booming trade using fluvial channels. The region's small, clandestine airstrips are located mainly in rural areas of Alto Paraná, Canindeyú, Amambay, Concepción, and San Pedro. Although air transport has traditionally taken a distinct second place to the preferred water routes, this trend has shifted more recently, thanks to Covid-19. A large number of small aircrafts have traditionally departed from clandestine airstrips in Paraguay to enter Brazilian air space. Many small aircrafts carrying illegal goods also cross into the Argentine province of Misiones³³. However, over the past few years, as traditional land and river crossings became more restricted thanks to the pandemic, clandestine airstrips became the main mechanisms of smuggling illicit goods across the TBA.

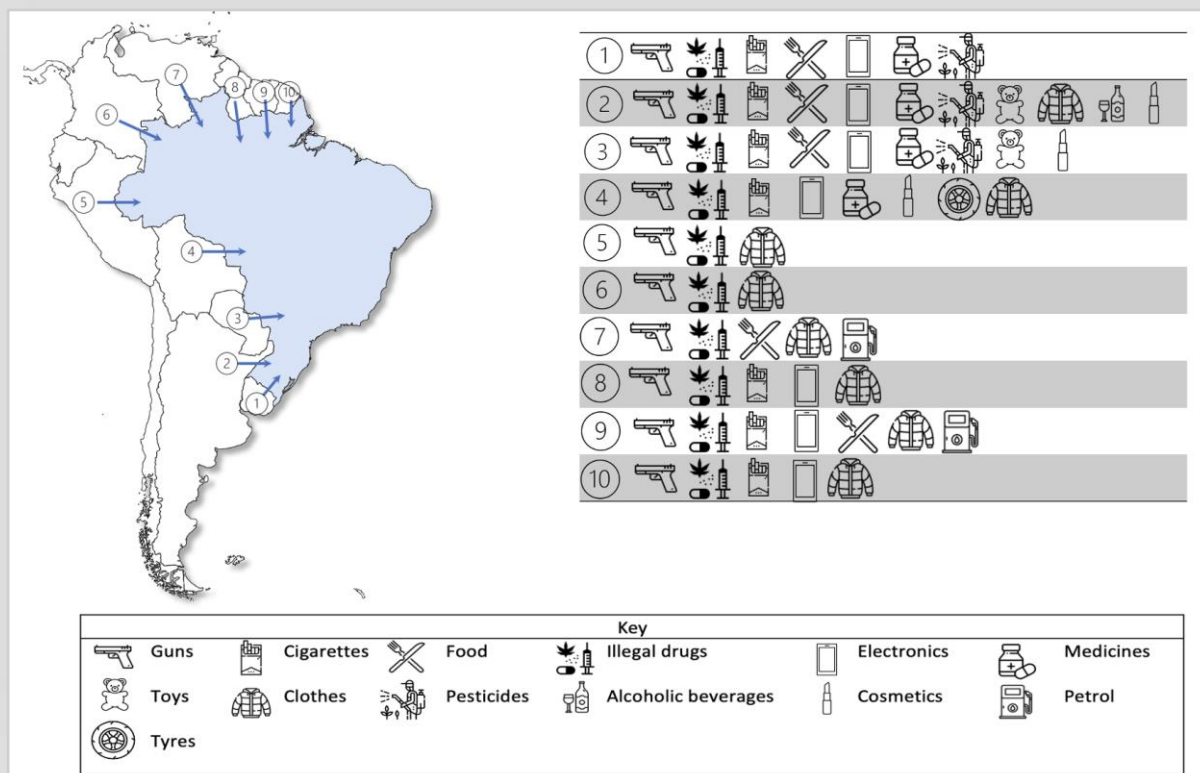
Broadly speaking, the origin of products smuggled in the TBA is diverse. However, much of the smuggling of electronics, clothing, vehicle parts, and crop protection products originates in East Asia, mainly China. Meanwhile, tobacco - one of the most smuggled products in TBA - and counterfeit alcoholic beverages originate in South America, mainly in Paraguay, Argentina, Colombia, and Bolivia³⁴, although shifts in this pattern are increasingly discernible, as will be discussed further below. It is worth noting that the TBA represents but one of ten key routes used to smuggle illicit goods into Brazil (see Table 3 and Map 2).

Table 3: Key routes of illicit goods moving into Brazil (TBA, New TBA & Others)

Route 1: Uruguay	Route 2: Argentina	Route 3: Paraguay	Route 4: Bolivia	Route 5: Peru	Route 6: Colombia	Route 7: Venezuela	Route 8: Guiana	Route 9: Suriname	Route 10: French Guiana
Mostly land	Mostly land and water (river)	Mostly land and water (river and lake)	Mostly land	Mostly land	Mostly land and water (rivers)	Mostly land and water (rivers)	Mostly land and water (rivers)	Mostly water (river), distributio n within Brazilian lands	Mostly water (river), some land
Guns	Guns	Guns	Guns	Guns	Guns	Guns	Cigarettes	Cigarettes	Cigarettes
Illegal drugs	Illegal drugs	Illegal drugs	Illegal drugs	Illegal drugs	Illegal drugs	Illegal drugs	Guns	Guns	Guns
Cigarettes	Cigarettes	Cigarettes	Cigarettes	Clothes	Clothes	Clothes	Drugs	Illegal drugs (from Peru & Colombia)	Drugs
Food	Cosmetics	Cosmetics	Cosmetics			Food	Electronics	Electronics (from Panama Channel)	Electronics
Electronics	Toys	Toys	Electronics			Petrol	Clothes	Clothes	Clothes
Medicines	Food	Food	Medicines					Petrol	
Pesticides	Electronics	Electronics	Tyres					Food	
	Medicines	Medicines	Clothes						
	Pesticides	Pesticides							
	Alcoholic beverages								
	Clothes								
<u>Destination:</u> Southeast Brazil, drugs go to big cities and via Itajaí and Paranaguá ports to Europe and Western Africa	<u>Destination:</u> Pesticide goes to South and Center- West of Brazil. Guns and drugs to big cities and ports of Santos, Itajaí and Paranaguá. Others to São Paulo and from there to all of Brazil.	<u>Destination:</u> Pesticide goes to South and Center- West of Brazil. Guns and drugs to big cities and ports of Santos, Itajaí and Paranaguá. Other to São Paulo and from there to all of Brazil.	<u>Destination:</u> North-East, Center-West and South- East Brazil	<u>Destination</u> : North- East and South-East Brazil	<u>Destination:</u> North-East and South- East Brazil	<u>Destination:</u> North-East and South- East Brazil	<u>Destination:</u> North-East and South- East Brazil	<u>Destination:</u> North-East and South- East Brazil	<u>Destination:</u> North-East and South- East Brazil

Source: Authors as compiled from different data sets.

Map 2: Key routes of illicit goods moving into Brazil (TBA, New TBA & Others)



Source: The authors complied from different data sets.

Drugs:

While it is possible to outline the broad characteristics of the global trade in illegal narcotics, it is very difficult to provide a reliable estimate of the volume and value of this trade. It has been argued that no universally accepted figures exist, although the majority of scholars and practitioners accept the numbers provided by the United Nations Office on Drugs and Crime (UNODC)³⁵.

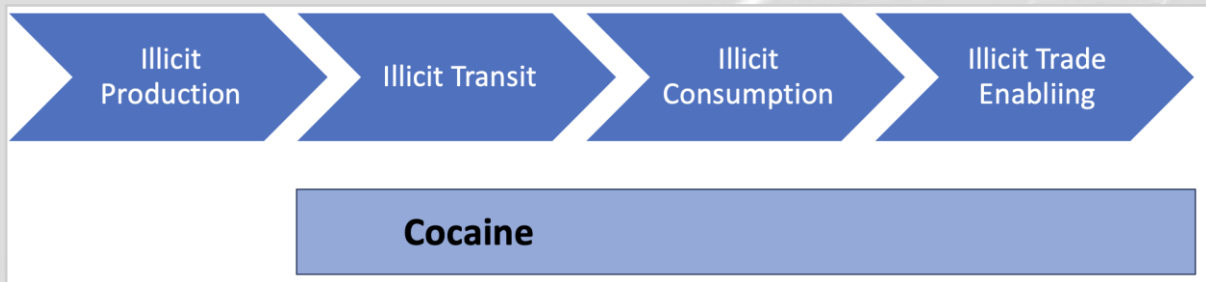
There are some key findings for the illicit trade in cocaine and marijuana in this region:

1. Marijuana is produced locally (mostly in Paraguay) for regional consumption (Brazil, Argentina), while cocaine is produced in the Andean countries, and Paraguay acts as one of the main transit points for moving this drug into Brazil, Argentina, and Uruguay. Within this movement, the TBA plays a critical role. In all cases, Paraguay, Brazil, Argentina, and Uruguay function as both destination and transit points. Brazil, especially, is becoming a key source in the region for large shipments of cocaine into Europe, Africa, and the rest of the world.
2. Within Africa, a key destination for large shipments of cocaine used to be South Africa from where the drug would mostly move towards Australia. South Africa, has in recent years been replaced by Mozambique, which is being used as both a stopover and a trans-shipment point into the rest of Africa, into Europe (via land routes running through the north of Africa), as well as into other parts of the world (South-East Asia). North African countries are also a destination for Brazilian shipments of cocaine - and for this part of Africa we see a combination of air and sea transport.
3. The use of small aircrafts to move cocaine into Brazil has increased since the pandemic. Overall, there has been a rise in the amount of cocaine being moved into Brazil but a drop in the amount being sent out into the international market from the country. Some of this has to do with the difficulties in moving the drug to ports along the Atlantic. For the cocaine leaving Brazil, contaminated containers, sailing, and merchant vessels, as well as fast boats and (semi)submersibles, are used to move drugs into Europe, West Africa, Southern Africa, etc. Individuals carrying cocaine on commercial flights also continue to be a method to transport small quantities of cocaine out of Brazil, with the drug mostly concealed in personal belongings. But compared to container smuggling, this is a negligible amount.

4. TBA's and, more specifically, Brazil's evolving role in the international cocaine trade seems to be linked to the increasing role of the PCC in the TBA and its control of the regional trade and traditional land transportation routes, which, when combined with its control of key seaports in Brazil, has led to an exponential increase in container shipments/contamination. Argentina's, and increasingly Uruguay's, seaports are also being exploited for cocaine shipments.
5. All shipments - local (marijuana and cocaine) and international (of cocaine) - of illicit drugs share routes and means of transport with other illicit and/or licit goods. For instance, we often see drugs shipped using the same routes as tobacco or arms.

Cocaine

Figure 2: Flow of Cocaine Through the TBA



The drugs (specifically cocaine and cannabis) and the arms trade together represent the top three criminal markets in this region. According to the Global Organized Crime Index ³⁶, the cocaine trade in the Southern Cone is led by Brazil and Paraguay while the cannabis trade is led by Paraguay, Brazil and Argentina, in that order.

The complex web of the cocaine trade in the Southern Cone

Cocaine functions as the key driver of organized crime in this region and facilitates corruption, homicides, money laundering, fraud, and border-monitoring difficulties, to name just a few, as well as feeding into an escalating cycle of lethal violence by organized criminal syndicates on the one hand and the security forces on the other. The PCC has emerged as a critical player in this dynamic thanks to its increasing stronghold on several cocaine corridors.

From the available data, it can be seen that Brazil functions as both a destination and a key transit point for cocaine (generally in the form of coca paste/cocaine base or cocaine hydrochloride) that is sourced from the Andean region of South America (Colombia, Peru, and Bolivia). This cocaine is transported to different markets across the world via Brazil using various modes of transport. The Brazilian domestic market and demand for cocaine base (i.e., coca paste) has also grown, and as a result, an increasing proportion of this cocaine is consumed locally. Over the past fifteen years or so, we have also seen the slow but steady emergence of clandestine laboratories for cocaine refining in some parts of the country. These laboratories also generate other intermediate products that are produced during or after the cocaine hydrochloride manufacturing process, such as crack ³⁷. This is corroborated by the more recent UNODC 2021 report, which also argues that crack is especially popular in Brazil, with its variants being found in Uruguay and Paraguay, as well as in the coca producing countries of Bolivia, Colombia, and Peru.

There is also some evidence, although the data is fairly diffused, that organized criminal groups like the PCC (see Box 1) have established laboratories for adulterating cocaine by mixing it with other medical-grade drugs (e.g., morphine and other opioids). This is a method that allows the group to expand its profit margin by supplying only 20% of cocaine to suppliers, with 80% of the supply made up of other opioids³⁸. In addition, we have some evidence pointing to a potential increase in local production. So, cocaine is transported into, across, and out of Brazil, for both local consumption and external markets.

Box 1: The First Capital Command (Primeiro Comando da Capital - PCC)

The PCC emerged out of Brazil's brutal prison system in the 1990s. Since then, it has forged a bloody path to become Brazil's foremost criminal organization. It not only continues to control prisons across Brazil but has also used the prisons system to expand its presence into the neighboring countries of Paraguay and Bolivia. Within Brazil, apart from prisons, the PCC controls what are best described as criminal enclaves across large swaths of the country where it runs the criminal economy. Thus, from urban slums (commonly known as *favelas*) to highways and even entire cities that it holds hostage to its criminal objectives, the PCC has grown in strength and sophistication to emerge as Brazil's largest and most formidable criminal organization.

Expanding its influence into Paraguay and Bolivia has also allowed the PCC to capture the illicit arms and drugs trade in these countries. Its explosive growth, not only in Brazil but also in Paraguay and Bolivia, can be credited to its control of several key cocaine corridors in the region, especially the routes moving cocaine from the Andean countries, first into Paraguay and then onto Brazil, for not only domestic consumption but also for export via the country's many seaports. The PCC not only controls these corridors which it uses for its own shipments of cocaine into Brazil, but it also taxes independent traffickers using these corridors. The group's top leadership has also used its growing stranglehold on these corridors to forge new links with cocaine brokers and international drug trafficking mafias, including the Italian mafia, the 'Ndrangheta, to not only move their own shipments of cocaine into different international markets but also use offshore locations, like China, to launder money.

More recently, there is considerable evidence linking the PCC to international drug shipments via Bolivia, Paraguay, Uruguay and other Latin American countries into north-western African countries (many of which act as transit points into Europe for drugs being shipped in from Brazil, Colombia and other Latin American countries) and even southern African countries like Mozambique, directly into Europe, into South-East Asia etc. Evidence suggests that the PCC sources cocaine from a host of suppliers for its own business while also being the key logistics provider in Brazil (protection, warehouses, access, corrupt officials etc.) for transnational cartels and mafias. Working together, the PCC and these international trafficking mafias ship the drug out of PCC-controlled airports and seaports in Brazil. Over the past few years, joint operations, police seizures and arrests as well as work by investigative journalists has demonstrated that the PCC, in partnership with other international drug trafficking mafias, is responsible for shipping cocaine to at least five other continents.

This transport connects two main parts and dynamics of Brazil's illicit markets: the regions bordering Bolivia, Peru, Colombia, and the TBA on the one hand with the country's port regions, in particular Paranaguá (Paraná), Itajaí (Santa Catarina), Salvador (Bahia) and Santos (São Paulo), on the other. This link between what is one of the key international routes for cocaine smuggling, i.e., the Southern Route, and the ports of Brazil and other countries in the region (Argentina, Uruguay, etc.) is a critical component of the cocaine smuggling dynamic today. Argentina's Ruta 34, for example, has long been notorious for its role in the movement of cocaine in this region. Ruta 34 is a 1500-kilometer stretch that links the Bolivian border to the Argentine city of Rosario, where drug trafficking organizations receive cocaine shipments and move them on toward their next destination. Now Brazil, along with Uruguay, is increasingly becoming a linchpin in the Southern Route. This route extends down through South America into Brazil, Uruguay, and Argentina before radiating outwards from the river ports and seaports dotted across these countries. Europe remains the primary market for this smuggling. Increasingly, we are seeing how cocaine is also being moved first to Southern African and West African countries before being moved onwards to Europe³⁹. In late July 2021, Paraguayan authorities seized over three tons of cocaine in a warehouse in the larger metropolitan area of Asunción. The cocaine had been split into 160 small bags and camouflaged inside bags of organic sugar due to being exported to Africa. Paraguayan authorities have been consistently arguing that the character of cocaine seizures clearly demonstrates how criminal organizations are moving the drug into Paraguay and the TBA via land and air routes in order for it to be transported internationally⁴⁰. Much of this drug trafficking uses Brazil's sea and air routes as the international launchpad. It is worth underscoring again however, that air transport has been increasingly preferred over land routes since 2020 thanks to the shifts brought about by Covid-19.

There is also some evidence that OCGs have been improving their capabilities in air transportation. Raids by Brazil's Federal Police have found workshops and small factories that are being used to refit light aircrafts to augment their flight capacity. This remodeling may even allow these aircrafts to cover the distance across the Atlantic into West Africa⁴¹.

Ports and container smuggling: A game of whack a mole

As stated above, the drug trade, and particularly cocaine trafficking, connects the regions bordering Bolivia, Peru, Colombia, and the TBA with Brazil's port regions. Organizations linked to international cocaine trafficking exploit the logistical structures of these ports to send the drug to different parts of the world, especially to Europe, Africa, the Middle East, and, to a somewhat lesser degree, Asia ⁴³.

Table 4: Cocaine seizures in select Brazilian ports by quantity, in kilograms, in 2019 and 2020

Port	2019	2020
Santos	27,667.3	20,874.4
Paranaguá	21,554.0	7,401.0
Itajaí	4,133.0	1,364.0
Joinville	235.0	4,315.40
Salvador	3,383.0	7,499.1
Ilhéus	-	2,188.5

Source: Data selected from the CdE report ⁴²

Map 3: Cocaine seizures in select Brazilian ports



Source: Authors as compiled from different data sets.

However, this dynamic is also a fairly recent development - something that has evolved over the past decade or so as container shipments out of the traditional ports in Colombia and Peru came to be more heavily monitored and checked because of their long-standing misuse of drug trafficking. Brazil, with its long coastline, direct links to production zones in Colombia, Peru, and Bolivia, state infrastructure, numerous container ports, high intensity business with Europe as well as organized crime landscape, emerged as an alternative because it supplied cocaine traffickers with conditions strikingly similar to those that had existed in Colombia and Peru. This essentially facilitated what was a migration of the cocaine trafficking dynamic into Brazil - starting with the port of Santos with others, such as Paranaguá and Itajaí, following close behind (See Table 4). Cocaine seizures reportedly rose from 4.5 tons in 2010 to 66 tons in 2019 ⁴⁴. It is worth noting that given the dynamic nature of the cocaine trade, this migration is continuing - not only within the Southern Cone but also within Brazil. In the region, traffickers are moving to using ports in countries with relatively clean business histories, such as Argentina, Uruguay, and Chile ⁴⁵. In fact, Uruguay has emerged, alongside Brazil, as a major exporter of cocaine to Europe over the past few years. In 2019, authorities in Uruguay seized over nine tons of cocaine in two shipments alone, which were en route to West Africa ⁴⁶.

Within Brazil as well, traffickers dealing in cocaine are increasingly moving away from the big ports to smaller ports in the northeast and further south, which have less capabilities to monitor and surveil container flows (see Map 3). Still, data suggests that the main port exporting cocaine remains Santos, which by far outweighs other ports that show a more fluid dynamic. It is notable that the port of Santos is controlled by the PCC, which also has warehouses across the city of Santos to receive and store cocaine before transporting it to other parts of Brazil or exporting it to Europe. In Brazil, local elites from the border regions have competed with criminal groups for decades to control wholesale cocaine routes. The profits from cocaine

trafficking are routed not only to these elites and criminal groups but also to illegal state-security markets, Colombian transnational criminal organizations, and mafias. Traditionally, while middle-class markets in Brazil are non-violent, markets in the urban outskirts and poor neighborhoods tend to be characteristically large and markedly violent ⁴⁷.

In short, cocaine trafficking has become the backbone for sustaining competition and cooperation between criminal organizations, international brokers, and corrupt facilitators. Taken together, these fuel high levels of violence in society, particularly in cities and regions where the trade has taken hold, making the region extremely volatile. Various studies have shown that towns along the borders both in Brazil and Paraguay have a higher homicide rate than the national average ⁴⁸. They also enable the conversion of what had sometimes been street gangs into large criminal players. We've seen this across Latin America with a concomitant spike in violence.

"In Paraguay, this disparity is even stronger: border provinces, such as Amambay, have a homicide rate up to 30 times higher than other more peaceful provinces like the Central District, where the capital Asunción is located. Cities such as Coronel Sapucaia and Capitán Bado have been infamously denoted as some of the most violent cities in their respective countries, both with a homicide rate of over 100 deaths per 100,000 inhabitants. These numbers are directly related to the intensification of the conflict for the control of drug routes, with young men representing the largest share of those being killed" ⁴⁹.

In Brazil, cocaine trafficking through ports has enabled an already formidable PCC to emerge as a large-scale trafficker with, its leaders brokering international deals with other cartels. It has also resulted in the emergence of a new generation of port-logistical specialists used by traffickers to organize cocaine dispatches. The PCC also runs an intricate web of truckers and long-shoremen, to ensure it has access to the ‘right’ kind of containers ⁵⁰.

Mapping the routes and techniques of the cocaine trade

It is worth mentioning the evolving role and technique of trafficking in particular relation to the TBA. There are three main routes of transportation out of Latin America - the Southern Route, the Caribbean Route, and the Western Africa/the Sahel Route. Of these, it is only the Southern Route which, as discussed above, pushes cocaine out of Brazil and Uruguay into mainly Spain and Portugal, sometimes routing the drug via Africa. The Serbian mafia has, over time, moved upstream in the supply chain, establishing direct contact with Brazilian organizations to facilitate trade. Evidence shows that drug trafficking groups from Brazil, Colombia, and Venezuela are increasingly entering into alliances of convenience with local terrorist groups operating in the Northern and West African region, including AQIM, ISWAP, and Boko Haram⁵¹.

In all cases, while small aircrafts, private charter flights and shipments using commercial airlines and airports have continued to be used on all routes, other forms of transport have also emerged. We have evidence of narco-submarines (i.e., semi-submersibles used to transport large quantities of cocaine into Europe or Africa) and other sailing vessels being used since at least 2018 ⁵². However, over the last 30 years, container shipping has clearly emerged as an increasingly favored mechanism for transporting large quantities of cocaine. Container shipping not only represents a security gap that criminals can exploit (of the 750 million containers shipped globally every year, less than 2% are inspected), but containers also facilitate bulk transportation of cocaine to feed booming market demand for the drug across the globe ⁵³. Techniques for container shipment have also evolved over time in response to security measures with contamination of cold and unmarked containers being among the most favored methods today (see Table 5).

Table 5: Common Techniques of Container Trafficking

Technique	Modus Operandi	Requirements	Notes
Within the load	Cocaine is camouflaged in everyday exports of legal products	Traffickers use front companies and straw exports	Traffickers have direct control over shipments
Rip-on/rip-off method	Traffickers break open containers of legitimate exports to ship the cocaine. Containers are closed using cloned customs seals to conceal the tampering.	Traffickers need to have direct access to port areas where containers are contaminated. This is achieved through the use of covert means, force or leveraging corrupt port workers.	Traffickers lack direct control over shipments, require the use of intermediaries and extractors but avoid profiling
Container structure	Traffickers conceal cocaine in the cavities in the walls, ceilings, floors, doors or in the reefers (the insulation or cooling equipment of refrigerated containers) of the container itself	Corrupt and/or complicit people in shipping companies or container yards. Or front container-maintenance companies which traffickers use to mask illegal activities.	Traffickers can exercise direct or indirect control over shipments. Traffickers are at risk if authorities use scanners. Some traffickers have responded by contaminating pre-scanned containers.
Drop-off	In this technique containers are contaminated at sea having left the ports with small vessels or speedboats carrying drugs to the ship in before passing it to the crew. The crew packs the cocaine onto containers already onboard the freighter.	This technique requires extensive corruption amongst the crew although there is evidence of crews being forced to accept cocaine loads at gunpoint.	Traffickers depend on corrupt intermediaries. Drop offs can happen immediately after the ship sets sail or as it passes through the waters of other nations.
Switch technique	This technique swaps the cocaine to unmarked containers in transit.	This technique requires access to containers where the switch can be made	This technique is facilitated by corruption and the presence of intermediaries.

Source: Authors' compilation from McDermott et. al.⁵⁴

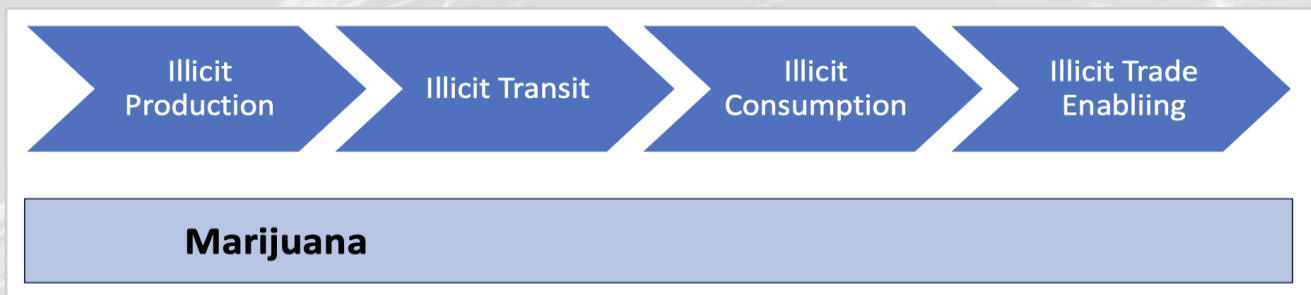
As previously discussed, the cocaine being transported into Brazil mostly originates in Bolivia, Colombia, and Peru. The drug is first pushed into Paraguay via land and air routes, and so Paraguay serves as the transit country for its neighbors - for both domestic consumption in these states and also shipment to other overseas markets. In short, Paraguay, although landlocked, is exploited by drug traffickers to access its neighbors through its porous borders, network of clandestine airstrips, extensive fluvial channels, and structural weaknesses exemplified by under-resourced, often corrupt law enforcement and judicial institutions. Much of the cocaine trade across Paraguay today is controlled by the Brazilian PCC, as has been discussed previously. Meanwhile, smaller criminal groups tend to invest in the marijuana trade with plans to transition to the more lucrative cocaine trade over time ⁵⁵.

In addition to the PCC, there are a variety of criminal organizations with international reach operating in this region. In December 2016, for example, Paraguayan authorities arrested six alleged-affiliates of the Mexico-based Sinaloa Cartel in Asunción. According to media reports, the arrested individuals were allegedly seeking to establish a cocaine trafficking route from Colombia to Europe via Paraguay ⁵⁶. Some analysts also argue that drug trafficking is one of the most important activities of not only organized crime syndicates but also the Islamist terrorist organizations ⁵⁷ like Hezbollah that are present in the region. Certainly, we have ample reports about both Hezbollah's presence in the TBA as well as its well-established links to drug trafficking in the region ⁵⁸. Perhaps the most well-known recent case of Hezbollah's involvement in drug smuggling is that of Nasser Abbas Basmad and Hanan Hamdad. Basmad has been identified by security agencies in the USA, Brazil, and Paraguay as a key figure in money laundering, drug trafficking, and financing inside Hezbollah in Latin America. His female associate, Hamdad, was also shown to have links with Hezbollah. Both were partners in Hezbollah-linked shell companies responsible for smuggling cocaine disguised as shisha charcoal to various countries ⁵⁹.

All these groups also engage, to varying degrees, in a host of other illegal activities that are linked to the drug trade. This includes arms trafficking, money laundering, counterfeiting, and cigarette smuggling. In short, these illicit trades exist in the same spaces, often use the same facilitators, routes, and modes of transport. They are exploiting, in other words, the same structural weaknesses and security gaps to thrive and expand.

Marijuana

Figure 3: Flow of Marijuana Through the TBA



Today, Brazil represents the largest cannabis market in Latin America. In the past, Brazil produced a great portion of its cannabis, but following the spike in consumption, Paraguay has taken over and is now not only the main source of the drug for Brazil but also the largest producer of marijuana in South America today ⁶⁰. It is worth noting that less than one percent of Paraguay's population consumes marijuana. Often called demon weed (hierba maldita), marijuana consumption is deeply stigmatized and socially sanctioned ⁶¹. Paraguay has been involved in the growth and exportation of cannabis since at least the late 1960s when marijuana plantations were established in the department of Amambay, around the town of Pedro Juan Caballero. Today, 93.7% of Paraguay's cannabis farming is concentrated in the northeast of the country along the 438 km of the dry border with Brazil ⁶².

The transformation of marijuana in Paraguay

1998 was a transformative year for cannabis in Paraguay when Fernandinho Beira-Mar, the leader of Comando Vermelho (CV) - one of Brazil's three main criminal groups - broke out of prison in Brazil, escaped to Paraguay and quickly established himself in the border town of Capitán Bado. Shortly thereafter, a bloody conflict broke out between CV and the local elite, from which the CV emerged dominant. It then split the Paraguayan border and the bulk of the cannabis trade from Paraguay with the Brazilian PCC. This long-standing alliance between the PCC and CV ended in 2016 and has been marked by the outbreak of a bloody conflict between the two groups that has left a trail of bodies across Brazil and resulted in an uptick in violence in Paraguay, especially in the Brazil-Paraguay border region ⁶³.

Marijuana crops are planted on rented plots of land owned by large landowners, indigenous communities, and smallholders, although it is not unheard of for crops to be planted on land without the explicit agreement of the formal owner. Over time, these drug traffickers have taken hold of the region, imposing their rules with the full collusion of a community they have won over through the provision of services - repairing schools, providing transport to hospitals etc. - that should be the ambit of the state ⁶⁴. The marijuana business has also fragmented over time, with the few large traffickers being replaced by hundreds of small and middle-sized outfits ⁶⁵.

This history of marijuana production clearly reflects close links to a corrupt local political structure that benefits from the illegal cash flows associated with drug trafficking. Thus, criminal organizations trafficking drugs can function with impunity in this region thanks to not only corrupt local authorities (mayors, parliamentarians, civil servants, police, and military personnel) but also businesspeople who are often involved in both the production of cannabis as well as the cocaine trade between the Andean countries via Brazil into Europe and other overseas markets. These very business personnel are also often involved in a powerful network of money laundering that supports their other illicit activity ⁶⁶. In fact, what we see is an “integrated production chain” comprising landowners, transport workers, private security firms, and hired assassins, as well as middlemen who protect plantations and airstrips and work with the full knowledge and collusion of state authorities to make cannabis Paraguay’s most important criminal economy. More recently, reports have emerged that the Brazilian PCC is moving beyond just buying marijuana in Paraguay and into the cultivation business.

Mapping routes of the marijuana trade

In the absence of domestic consumption, most of the marijuana produced in Paraguay is exported to neighboring countries in South America (Brazil, Argentina, Bolivia, Chile, and Uruguay). Marijuana transport is associated with the so-called ‘ant trafficking’ where small amounts of the illegal drug are moved, both within Paraguay as well as into neighboring countries, by individuals using whatever limited means they may have available - bicycles, motorbikes, even bag-packs. SENAD officials have reported that about 20% of the country’s marijuana is shipped south into Uruguay, Argentina, and Chile or west into Bolivia. The remaining 80% crosses the border into Brazil where it is picked up by various criminal organizations and distributed throughout the country ⁶⁷. SENAD, in cooperation with the Paraguayan national police and Brazil’s federal police, regularly captures and destroys cars, planes and clandestine runways involved in the transportation of marijuana. However, authorities are strapped for resources and personnel and argue that they are disrupting only about 25-30% of the smuggling activity ⁶⁸. Once inside Brazil, São Paulo and Rio de Janeiro clearly function as consumption hubs for imported cannabis. São Paulo especially also functions as a distribution hub for the central and southern parts of the country. In the north of Brazil, it is mostly Colombian cannabis that is traded. As mentioned previously, groups like the PCC and CV are potentially not only slowly trying their hand at controlling cannabis cultivation but also dominating the wholesale market; they work with various networks and individuals to retail the cannabis. The PCC is heavily involved in the transport of marijuana from the TBA into Brazil, using both land and air modalities. There is evidence of OCGs increasingly relying much more upon air transportation since Covid-19 restrictions made transportation via land routes more challenging. That the PCC understands the significance of air transport is evidenced by the group investing in training specific members, often young men, to pilot light aircrafts ⁶⁹.

More recently, there have also been reports of concealed marijuana plantations in the north of Argentina, in the province of Misiones, which borders Paraguay. Analysts argue that it is possible that criminal organizations are testing marijuana cultivation on the Argentinian side of the TBA to avoid moving the drug through what are increasingly stricter border controls and rising drug seizures due to action taken by the authorities of all three states comprising the TBA ⁷⁰. Argentina, along with its neighbors, has been moving against the increasingly virulent drug trade along its northern border. In 2018, 126 metric tons of marijuana, accounting for nearly 70% of the total amount captured by the authorities in Argentina, was seized in the province of Misiones alone ⁷¹. In 2019, Argentine authorities arrested a gang of traffickers in the Paraná River with 1,000 kilograms of marijuana ⁷². The largest shipments that enter the country from Paraguay using fluvial channels make landfall in Misiones and Corrientes. Moreover, distribution for the local drug retail market is also deployed from there. The traffickers have a fully established logistical chain in Argentina to move the drug after landfall. These logistics include collusion by state actors.

The Argentine authorities have also been trying to address the rampant corruption that facilitates this trade. Over the past several years arrests have been made of government officials and coast guard members implicated of involvement in the shipment of marijuana and/or collusion with local drug lords ⁷³. For instance, in 2018, investigations led to the imprisonment of the mayor of Itatí, Roger Terán, and the mayor of Empedrado, Juan Manuel Faraone. Both were mayors of towns in Corrientes along the Paraná River and allegedly involved in the smuggling of substances ⁷⁴ (See Box 2).

Argentina also suffers from an intricate network of clandestine airstrips along its less inhabited northern borders with Paraguay, which also play an important role in the transportation of drugs. Some reports claim that there are as many as 1,500 clandestine airstrips, which augment land and fluvial routes, to support the enormous drug trade linking Argentina with its regional neighbors ⁷⁵. There are also long-standing reports of airplanes being actively targeted in this region, i.e., they are hijacked, repainted, concealed, and then used by the criminal groups operating here ⁷⁶.

There are also important shifts happening in the marijuana trade as a result of stricter border controls. In February 2022, Argentine security forces conducted operations in the provinces of Salta and Jujuy, in which they uncovered huge marijuana plantations and seized almost 10,000 cannabis plants and seeds. The plantations were hidden amidst larger tracts of land and under forest cover. It is worth noting that the provinces of Salta and Jujuy are located further away from the TBA and closer to the border with Bolivia. The size of these plantations (experimental marijuana plantations discovered previously have been considerably smaller), as well as their distance from the provinces traditionally associated with marijuana trafficking (Misiones and Corrientes), might suggest that Argentina is slowly moving towards large-scale production of marijuana ⁷⁷.

Box 2: State Collusion and the Logistics of Marijuana Trafficking: A Case Study of the Itatí Trails



In September 2019, **Luis Saucedo**, alias “El Gordo” was arrested on the Argentina-Paraguay border by the Paraguay’s anti-drug agency, SENAD. According to the press, Saucedo was the head of ‘Los Gordos’, a criminal group that trafficked large quantities of marijuana from Paraguay to cities in Argentina via its river city of **Itatí** (Corrientes province). Saucedo was sent back Argentina where an ongoing trail of over 30 people had revealed a deeply entrenched web of local corruption. Amongst those on trial were the former mayor of Itatí, **Natividad Roger Terán**; the deputy mayor, **Fabio Aquino** as well as a host of other high-ranking police, judicial and other state officials.

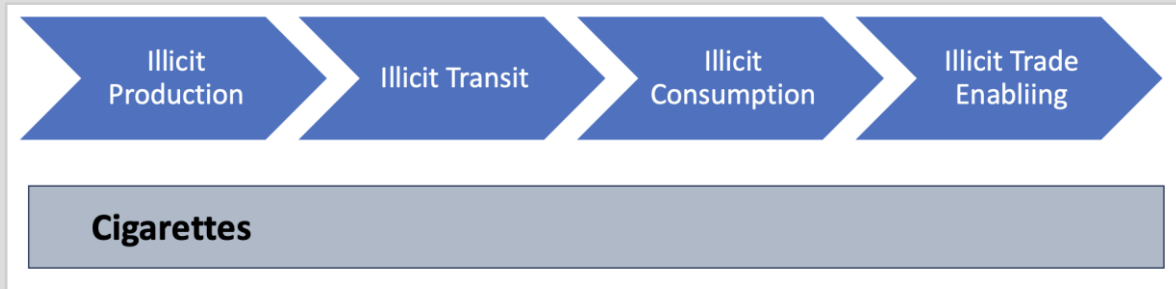
Investigations revealed that Saucedo, along with his local contacts in Itatí, was moving up to 6 tons of marijuana from Paraguay to Argentina per week. The marijuana was loaded onto trucks in the Paraguayan town of **Pedro Caballero** before being driven down to the **Paraná River**, which borders Corrientes. Here it was loaded onto boats and taken to Itatí where it was stored in sheds before being moved to seven provinces across Argentina. Itatí is located 2,500-3,000 meters across the Paraná river from Paraguay, and the stretch is peppered with small islands. This makes it particularly lucrative for the drug trade.

What is impressive about this case is the interconnected web of Los Gordos members involved in marijuana trafficking. Saucedo coordinated directly with the mayor Terán, who would pass on orders to the deputy mayor, Aquino. Aquino would then speak with the local police chief **Diego Octavio Alvarenga**, although on occasion Terán would also coordinate directly with Alvarenga. Both Mayor Terán daughter, **Mariela Alejandra Terán**, and her husband, **Ricardo Piris** (also known as el “Chino”) and all four of Deputy Mayor Aquino’s siblings (**Hernán, Cristian, Evelin and Yohana Aquino**), were also involved in the trafficking ring. Yohana Aquino, a local police officer, was responsible for alerting the traffickers of any surprise checks scheduled by the gendarmerie. Rubén Ernesto Ferreyra, the deputy federal police commissioner for Itatí was also involved.

Sources: di Nicola, G. & de los Santos, G.; Messi, V.; Salomón, J.
Visuals based on the map produced by: Salomón, J. ⁷⁸

Cigarettes

Figure 4: Flow of Illicit Cigarettes Through the TBA



The illicit trade in tobacco products has clear economic and social fallouts - ranging from an adverse impact on public health and the loss of government revenue from associated tax embezzlement and fraud all the way to the financing of terrorism and terrorist groups. A 2015 World Health Organization (WHO) report states that one in every ten cigarettes smoked is illicit, which means that the tobacco market is in large part legal. This sets the illicit trade in tobacco apart from other forms of illegal trade.

This “grey” market sets cigarette smuggling apart from other types of trafficking (e.g., firearms, migrants, narcotics). The illicit trade in tobacco is important for fiscal reasons but is rarely seen as a significant security concern. However, as criminal actors exploit tobacco products for their own financial gains, the illicit trade in tobacco products encompasses a chain of illegal activities that can include “unlicensed production, smuggling, fraudulent marketing, and tax evasion. Often, illicit trade requires money laundering, corruption, and various frauds and related crimes to move the illicit goods and money through various transit and financial systems” ⁷⁹. The illicit trade in tobacco can include:

1. **Contraband** - where the tobacco products are manufactured legally but then sidetracked into the illegal market. The products are considered contraband when appropriate taxes, duties, and fees are not paid.
2. **Counterfeit** - is when tobacco products are illegally produced and labeled falsely or if they bear unauthorized trademarks or trade names. Cigarettes are the most commonly counterfeited tobacco product.
3. **“Cheap whites” or “illicit whites”** - is when cigarettes are legally manufactured in one jurisdiction with the sole aim of being exported and illegally sold in another jurisdiction.
4. **Loose tobacco** - is the tobacco used to produce cigarettes and can be used illegally to manufacture cigarettes or other tobacco products ⁸⁰.

Paraguay: The Linchpin for the Illicit Cigarette Trade in the TBA

The TBA is notorious for the illegal trade in tobacco. In fact, Paraguay - which is the linchpin in the illicit trade in tobacco products to countries in the Southern Cone and beyond - has produced knockoffs of well-known cigarettes, like Marlboro and other lesser-known brands, like Eight, Te, Rodeo, and Clavert for years now. Paraguay also has over 2,600 “brands” of its own cigarettes, all registered with the Paraguay Ministry of Industry and Commerce ⁸¹. There are numerous reports that at least 65 billion cigarettes are manufactured in Paraguay every year, but the country only consumes about 2.5 billion cigarettes annually. The rest are smuggled to the countries across the region, particularly Colombia, Brazil, and Argentina - and further afield to Columbia, Mexico, Panama, Venezuela and even Europe - where the much higher taxes on tobacco products allow the traffickers to undercut legal competitors. “Paraguayan cigarette brands represented 73 percent of the total illicit consumption of tobacco throughout 16 Latin American countries in 2014, adding up to about 33.5 billion smokes”⁸². Indeed, this illicit trade in tobacco represents one of the main and most lucrative smuggling practices in Paraguay. Reports claim that 90% of all cigarettes produced in Paraguay enter the black market. Taken together, this constitutes 20% of the illicit trade in cigarettes worldwide ⁸³.

Tabacalera del Este (also known as just Tabesa) is allegedly behind most of the seized black-market Paraguayan cigarettes. In 2016, Tabesa reportedly produced six of Mexico’s top selling contraband cigarette brands and represented the main source of illegal cigarettes in Colombia ⁸⁴. Tabesa, along with its main distributor, Tabacos del Paraguay, dominates the country’s tobacco industry and is a family-run operation of the former President, Horacio Cartes, run with the complicity of a corrupt state structure. There have been repeated allegations that the Cartes Group not only produces cigarettes for legal export but also produces brands specifically for illegal smuggling - a claim consistently denied by the company.

Paraguay's tobacco industry boomed in the 2000s and benefitted from its particular location close to markets like Argentina and Chile, which have some of the highest smoking rates in the region, as well as to Brazil and Argentina, which are the main producers of tobacco leaf in Latin America. In fact, Brazil's growth in tobacco cultivation directly corresponds to the evolution of Paraguay's cigarette sector ⁸⁵. It is also worth underscoring that the illegal tobacco distribution networks in place today precede the boom in the tobacco industry because Paraguay has long been a contraband transit zone for all sorts of illicit goods. The anti-contraband measures that were introduced in Brazil in the late 1990s to fight the existing export and re-entry schemes backfired and pushed cigarette production into neighboring Paraguay, which became the main supplier for Brazil's black market and where market opportunity has resulted in an exponential increase in the local production of cigarettes. This illicit trade in cigarettes is hugely attractive thanks to the huge discrepancy in taxation levels. Paraguay charges a 16% tax rate compared to Brazil's 80%, which means the price of a pack of smuggled cigarettes drops from \$2.20 to \$0.95 ⁸⁶. At the same time, local, national, regional, and international authorities, mired in addressing a growing crisis of escalating violence and the trafficking of arms and drugs, tend to ignore Paraguay's cigarette smuggling as less significant. However, as will be discussed below, cigarette smuggling represents a key source of income for a variety of criminal and terrorist organizations, who exploit the perception that illicit tobacco trade is a low-level crime with concomitantly lower risks and repercussions ⁸⁷.

According to all accounts, the TBA is central to Paraguay's cigarette smuggling operations. According to a 2012 Fund for Peace report, the major smuggling routes for cigarettes out of the TBA are:

- By boat across the Paraná River to Guaíra (a Brazilian city central to the drug trade and located 150 miles from Ciudad del Este). From here, the cigarettes are routed across Brazil, to all its major cities.
- Northwards, where the products are destined for the east coast of the United States and Indian reservations in the southwest of the country;
- Destinations across the Caribbean and Central American (e.g., Aruba and Panama);
- Across the Atlantic Ocean, first to Ireland and then to other European markets and beyond ⁸⁸.

Cigarettes are produced legally by several Paraguayan tobacco companies, particularly in the Departments of San Pedro and Caaguazú and, to a lesser extent, in the Departments of Cordillera, Alto Paraná, Caazapá, Concepción and Central. The tobacco business in Paraguay is estimated at more than 4.5 billion dollars annually, with much of the product sold by Paraguayan smugglers who do not pay taxes in the destination countries. The cigarette industry in the Department of Alto Paraná of the Paraguayan TBA, for instance, occupies a somewhat grey space between legal and illegal. Much of the raw material (paper, chopped tobacco, filters) used in the production of cigarettes in the factories there comes from Brazil. Once the raw material is processed in Paraguay, it enters the Brazilian market once again as contraband ⁸⁹. Various reports from as long as a decade ago speak of a boom in the establishment and expansion of cigarette factories in the rural areas of the Paraguayan TBA that produce most of the cigarettes entering the Brazilian black market. One, for instance, describes Hernandarias, in the backwaters of Alto Paraná, explaining how in just the span of a few years, 15 cigarette factories were not only set up in town but also how rapidly they expanded their backyard operations to become enormous production plants ⁹⁰.

Once produced, the majority of the contraband cigarettes are loaded onto boats and sent across the Paraná River. Criminal organizations work on both sides of the river, often with the collusion of customs officials, border security, the police, and other state actors. Cigarettes are loaded on one side and unloaded on the other. Once they make landfall on the Brazilian side, they are transported from the state of Paraná to all corners of the country in cars, buses, and trucks. Brazilian authorities are also aware of what Pereira describes as 'Cigarette Fairs' in Pedro Juan Caballero and Ciudad del Este, where carriers camouflage boxes of cigarettes for smuggling. The price of cigarettes smuggled is regulated by the facility with which they are smuggled into Brazil - the easier the trip, the cheaper the cigarettes ⁹¹.

Brazil's web of counterfeited and smuggled cigarettes

In Brazil, the most prominent smuggled product is cigarettes. The illicit cigarette market in the country is closely linked to organized crime and represents not only a security challenge but also an economic and public health challenge. In 2021, IBOPE estimated that nearly 50% of cigarettes consumed in Brazil were illegal ⁹². The illegal trade in cigarettes in Brazil is a combination of contraband, illicit whites, and counterfeit cigarettes. Cigarettes sold in Brazil are contraband if produced inside the country for export because, in this case, they enjoy tax immunity or if they are of foreign origin ⁹³. Counterfeits are "cigarettes which are illegally produced and sold by a party other than the original trademark holder" ⁹⁴.

Counterfeit cigarettes are produced in clandestine factories spread across Brazil, especially in remote and rural areas that are hard to access. In some cases, factories are even located in isolated *favelas*. Various operations by Brazilian authorities have closed down clandestine cigarette factories. *Operation Tavares*, for example, closed a factory in the municipality of Triunfo in the state of Rio Grande do Sul. This clandestine factory, fronting as a cereal plant, had a monthly production capacity of 10 million packs of cigarettes, which, although still a comparatively small figure, illustrates what is an evolving security and economic challenge for Brazil. Even more concerning was the use of slave labor by the factory. Police rescued 7 Paraguayan nationals and 1 Brazilian who had been held in a bunker and sent food every two days ⁹⁵. There have been reports of factories in Brazil copying the style of packaging from Paraguayan brands due to their popularity and market share in the country. However, there have also been reports of clandestine factories counterfeiting Paraguayan cigarettes, once again, probably because they are so cheap and, as such, especially attractive to lower income social classes ⁹⁶.

Illegal cigarettes domestically produced by such underground factories distribute their wares across Brazil, with the retail price of these cigarettes considerably undercutting those that are legally manufactured. According to the Brazilian Ministry of Justice and Public Security, contraband cigarettes sell in the price range of R\$ 2.50 to R\$ 4.00. The cheapest cigarettes produced by legal manufacturers in Brazil retail at R\$ 5.00. It is worth underscoring that these are comparatively cheaper cigarettes produced by small national manufacturers. In contrast, of the cigarettes produced by the three large multinationals operating in Brazil, the cheapest retail between R\$5.50 and R\$6.00, depending on the region. The price differential between legal and smuggled cigarettes in Brazil is even starker than with illegally domestically produced cigarettes. The most recent survey on the price of smuggled cigarettes, conducted in October 2021, revealed that smuggled cigarettes were being sold at retail prices ranging between R\$ 1.00 and R\$ 1.50 in Foz do Iguaçu ⁹⁷.

There are reports that between 2015 and 2018, the illicit cigarette market in the state of Rio de Janeiro alone more than doubled, and today, more than 90 different brands of cigarettes are illegally imported into Brazil ⁹⁸. The losses from tax evasion for 2018 were estimated to have reached 11.5 billion reais, outstripping the revenue gained from taxes collected from the legal sale of cigarettes. In 2020, this figure is estimated to have reached 14.2 billion reais. More significantly, it is estimated that by 2020, the illegal cigarette market accounted for more than 50% of the total Brazilian tobacco market ⁹⁹. The same situation can be seen in Argentina where, the number of illegal cigarettes seized jumped from 250,000 packs in 2017 to 1.2 million packs in 2018, representing an increase of a whopping 245% ¹⁰⁰. Argentina's resulting loss of tax revenue sat at approximately 8.5 billion pesos (USD 200 million) in 2017. Like in Brazil, much of the smuggling happens along the Paraguay-Argentina border, and the city of Formosa in the TBA represents a key node in this illicit trade for Argentina ¹⁰¹.

Of every 10 cigarettes sold in Brazil, 4.5 are illegal ¹⁰². For gangs, involvement in the illicit tobacco trade is increasingly attractive thanks to not only the profits obtained from the sale but also the comparatively lower risk of imprisonment with shorter sentences than if arrested for narcotics or arms smuggling. As such, criminal organizations view cigarette smuggling as increasingly more lucrative than drug trafficking. There is even some evidence that criminal factions are deliberately investing in cigarette smuggling as a way to make quick money, which they hope to re-route into buying arms and drugs. In other words, criminal gangs are investing in cigarette smuggling as a mechanism for diversifying their businesses ¹⁰³. This shift is not benign. In addition to amplifying the risk to public health and the state's economy, there are clear overlaps that exist between cigarette smuggling, embezzlement, counterfeiting, and other violent crimes, including arms and drug trafficking. Further, the illicit trade in cigarettes not only uses the same logistics and routes as arms and drugs trafficking, but tobacco smugglers also operate in the same criminal market - and may even be the same - as those involved in cargo robbery, bank robbery, illicit arms, and narcotics trade, etc. ¹⁰⁴.

Mapping routes of the cigarette trade

As stated above, most of the cigarettes enter Brazil illegally from Paraguay and supply a large and growing clandestine market that distributes and markets this product. A key entry point into Brazil is the border with Paraguay that stretches from Foz do Iguaçu to Guaíra/Mundo Novo ¹⁰⁵. This cigarette distribution route supplies nearly all regions of Brazil, with alternative routes out of the TBA for Uruguay and Argentina. The routes to Uruguay have moved an increasing volume of cigarettes into the country, greater than the domestic consumer market can absorb, which may indicate that part of this goes to other international markets through the Port of Montevideo ¹⁰⁶.

The illicit tobacco trade, despite being illegal, is very well organized, with distribution logistics in place for every region. The cigarette brands produced in Paraguay are even divided up across regions. The very nature of cigarette smuggling involves large volumes of cargo. As a result, routes that connect the border areas (i.e., the entry points) to large centers (i.e., the destination points) have been increasingly targeted by the authorities. As a result, traffickers are increasingly specialized in managing very sophisticated logistical structures, including using alternative routes, diversifying routes, using warehouses and deposits for regional distribution, and minimizing risks and losses¹⁰⁷. The use of stolen vehicles, or vehicles with sophisticated cargo concealment devices has also become quite common in the transport of contraband cigarettes along land routes in Brazil.

Given that much of the cigarette trade enters Brazil from Paraguay, the use of roads and the dry border zone is central to this smuggling route. As a consequence, the role of the Federal Highway Police (PRF) is critical in combatting the counterfeiting, embezzlement, and smuggling that takes place especially during the transportation of illicit items¹⁰⁸. The PRF is charged with monitoring and protecting the country's federal highways. As a result, there is a higher density of PRF in areas with more federal highways, which are logically concentrated closer to large centers. Generally, there are many more federal highways, and thus PRF officers, peppered across the interior of the country than along the borders. Despite the relatively small number of roads along Brazil's dry border zones, the real difficulty in monitoring this space is linked to the sheer geographic size of this border. The border strip is 150 km wide and 15,000 km long. In other words, it is approximately 1.4 million square kilometers in area and represents 16.6% of total Brazilian territory¹⁰⁹. This core difficulty is further augmented by the border strip being characteristically sparsely populated, the presence of alternative land routes, and the regular flow of people and legal products with neighboring countries.

Brazil's borders can be divided into three main arcs - the Northern, Central and Southern. For our focus on the TBA, the Central and Southern Arcs are the most critical. The Central Arc - i.e. the border with Bolivia and Paraguay - includes the states of Mato Grosso and Mato Grosso do Sul and Rondônia. Criminal activities here are heavily dependent upon the network of federal highways (the BR-070, BR-163 and BR-174 in Mato Grosso stand out; BR-060, BR-163, BR-463 in Mato Grosso do Sul; and BR-364 in Rondônia). This region is characterized by the trafficking of marijuana and cocaine and the smuggling of cigarettes, electronic equipment, medicines, clothing, and beverages.

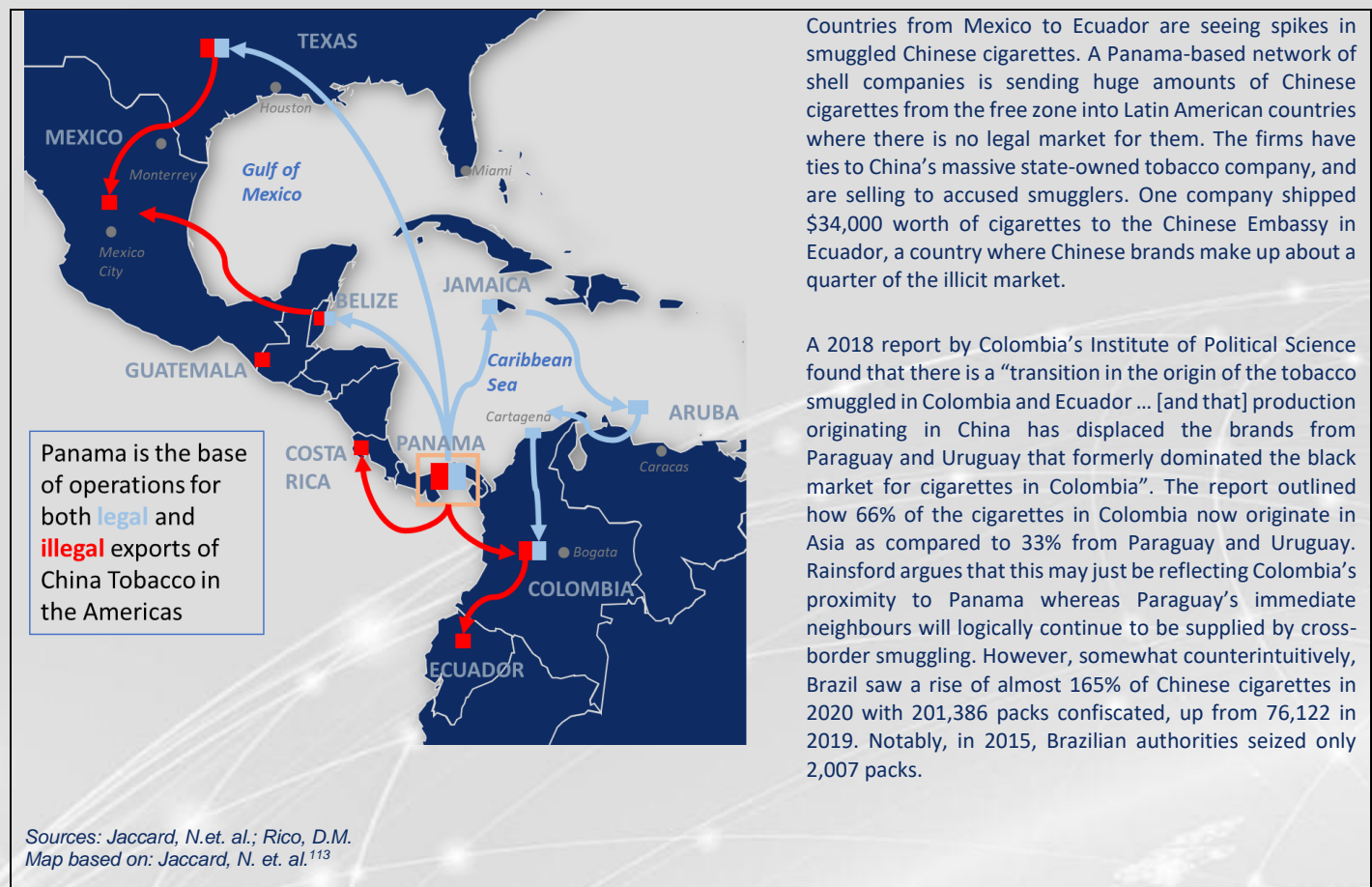
Finally, the Southern Arc - i.e., the border with Paraguay and Uruguay is comprised of the states of Paraná, Santa Catarina, and Rio Grande do Sul. This region is much more heavily populated than the Central and Northern Arc. As a result, we also see a denser flow of goods - licit and illicit - to and from the borders. It is worth remembering that illicit flows often depend on concealment amongst licit activities and goods. This region is associated with drug and weapons trafficking. Embezzlement and smuggling of cigarettes, electronic equipment, medicines, clothing, and beverages are also recorded. Once again, both licit and illicit activity are heavily dependent on the network of federal highways (the BR-163, BR-277 and BR-467 in Paraná stand out; BR-163, BR-282 in Santa Catarina; and the BR-116, 101, BR-163, BR-290, BR-293, BR-386 in Rio Grande do Sul)¹¹⁰.

Is the future a Chinese monopoly?

The illicit trade in tobacco is an activity that moves a lot of money in the Triple Border Area. Given the tax gap between Paraguay and Brazil, the trade is highly profitable and comparatively low risk for smugglers. This explains the Brazilian Federal Police's constant seizures of cars and even entire buses loaded with cigarettes. However, it is worth noting an interesting development in the region lately. Seizures across Latin America (Brazil, Colombia, Nicaragua, Panama etc.) are finding large quantities of contraband cigarettes originating in China (brands like Golden Deer and Silver Elephant), suggesting that the Chinese may be infiltrating established routes and threatening traditional criminal mafias of the region.

There are reports that although Paraguay continues to be a key supplier of illicit whites in the region, Chinese merchandise has already displaced Paraguayan cigarettes in Colombia and Ecuador¹¹¹. The Brazilian Ministry of Justice and Public Security's latest report has also highlighted how recent seizures of smuggled cigarettes inside Brazil are also showing large quantities of contraband from China and Indonesia¹¹² (See Box 3).

Box 3: Export Routes of Chinese Cigarettes in the Americas



The Impact of Covid-19

It should not come as a surprise that in a region where the livelihood of at least 50% of the population already depends on the informal market, black market smuggling exploded in 2020 thanks to the conditions created by the Covid-19 pandemic. A large part of the illicit flows from the TBA are routed from Paraguay and Argentina into Brazil and are items like cigarettes and drugs. These goods not only reach the Brazilian black and grey markets but are also routed to its air and seaports to be shipped further along in the chain, mostly towards Europe but also other continents. For the first time during the Covid-19 pandemic there was not only a significant shift in the direction of illicit flows in the TBA but also in the items being smuggled. Due to the restrictions and logistical difficulties caused by the COVID-19 crisis, Paraguay's food industry and commerce were severely compromised, resulting in severe shortages and skyrocketing prices for even the basics. One convoy of trucks was stopped with 30 tons of produce, including 100,000 units of eggs and 11 tons of tomatoes ¹¹⁴. Other seizures have encountered thousands of liters of cooking oil, tons of sugar, chicken and sausages and a range of fruits and vegetables, all smuggled from Brazil ¹¹⁵. All in all, what became strikingly clear was that the black markets associated with contraband increasingly became a means of survival for millions under conditions of crisis as legal industries ground to a halt. This was evident, for example, in Paraguay's enormous sugar industry where legal sales dropped from 7,000 tons per month to just 1,000 tons, thanks to travel restrictions or the inability to secure supplies, and smugglers stepped in to fill the void ¹¹⁶. In the case of sugar, tons poured in from Brazil. Fish, chicken, and gasoline too were hot commodities on both sides of the TBA's borders ¹¹⁷. Even though the markets in Paraguay have re-opened after the pandemic, the despair remains, and many Paraguayans continue to depend on food bought on the black market to survive. The country's chicken and beef producers have reported that they are being driven out of business as Paraguayans prefer the cheaper, illegal imports coming in from Argentina. Certainly, as poverty levels continue to rise within the country, it seems unlikely that the demand for cheap, non-luxury contraband is going to drop anytime soon

Cigarettes

While the number of daily smokers varies considerably across countries, close to one in four men aged 15 and above smoke daily in Latin America. Daily smoking rates generally tend to be lower amongst women in Latin America. Chile ranks first with the most female daily smokers (one in five), followed closely by Cuba and Argentina. For men, Argentina ranked the third highest for tobacco use (23%) and second highest for women (25%). Interestingly, Paraguay had the lowest rate of smoking for men (7%)¹¹⁹. However, the pandemic also impacted these established patterns of cigarette consumption.

During Covid, in Argentina, there was a shortage of cigarettes due to the mandatory quarantine, resulting in factory closures, and the black-market cigarette trade surged. From April 25, 2020 to May 5, 2020, Argentine authorities seized 100,000 packs of cigarettes worth nearly US\$ 150,000, amounting to one-fifth of all contraband cigarettes seized in 2019¹²⁰. There were reports of cigarettes seized from their hiding places in ambulances, wedged into a truck's door panels, and even in packages labeled as medicines. But it is worth noting that even before Covid there had been a spike in the smuggling of tobacco products in Argentina, which increased by 250% over the 2017-2018 period. Thus, even before the onset of the pandemic, very much like in Brazil, cigarettes have been increasingly viewed in Argentina as a low risk, high return illicit activity¹²¹.

Already in 2017, unfavorable economic conditions in Brazil were pushing smokers towards illicit cigarettes. At the same time, there is a clear movement towards Brazilians turning away from smoking as a health trend takes hold in the country¹²². Surprisingly, as the pandemic took hold over the course of 2020 and 2021, there was a migration towards legal brands of cigarettes in the country, which resulted in significant declines in illicit cigarettes. This may have been a result of an overall drop in the quantity of cigarettes being smuggled into Brazil as countries around the world went into lockdown due to Covid-19. As tighter border controls and restrictions were imposed on the movement of goods and people across international borders and within national boundaries, supply chains were severely hampered. This also meant that the manufacturers, distributors, and traders of illicit products like tobacco were impacted, and countries with an intense influx of illicit products pre-Covid showed a clear downturn in these flows. The result was an increase in legal sales, with cigarette companies gaining significant revenue at a time when the rest of the economy was under considerable pressure¹²³. This trend was evident in the overall drop in the number of seizures made in 2019 and 2020¹²⁴. However, it seems that this was a temporary, and already there seems to be a move back to 'normal' as the illegal cigarette trade slowly regains space. As inflation continues to burgeon, not only will lower income smokers continue to prefer cheaper contraband cigarettes, but middle-income Brazilians will also be impacted, potentially creating long-term changes in their patterns and behaviors of consumption¹²⁵.

Drugs

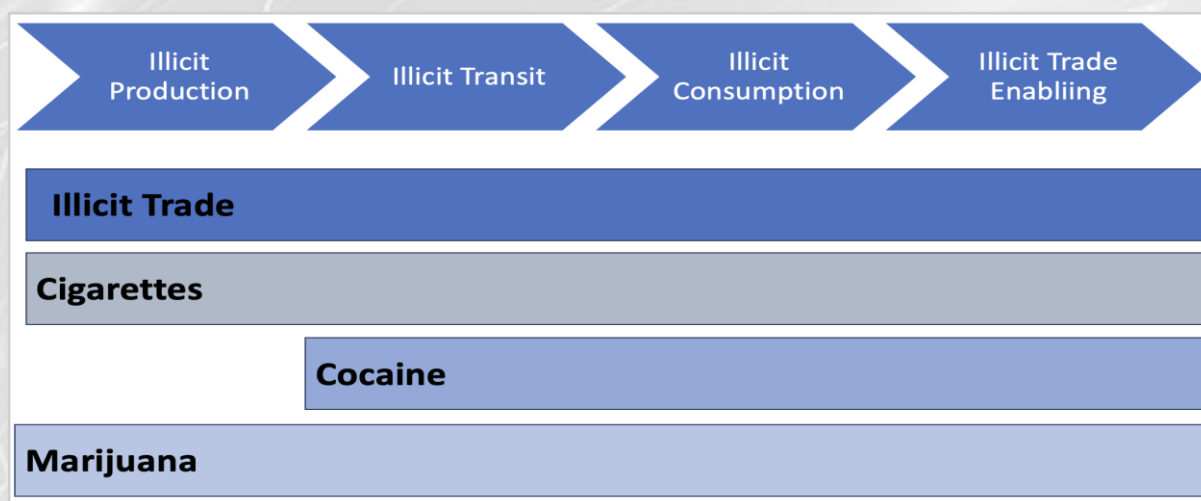
Brazilian law enforcement officials reported a significant increase in cocaine seizures in the postal service during the pandemic. Evidently, mailing small quantities of cocaine may have emerged as an alternative means to export the drug at a time when commercial flights were restricted. It is therefore unsurprising that overall seizures at airports declined significantly in 2020. Another explanation provided by law enforcement agencies for an increase in postal seizures was a decrease in economic activity due to social distancing measures in place which pushed more people towards alternative sources of income by sending packages with drugs by mail. Finally, the "increased incidence of postal packages carrying drugs may also be linked to an increase in the use of digital platforms such as darknet marketplaces, which often rely on postal services as their method of delivery, or instant messaging platforms"¹²⁶.

Several trends emerged at the level of distribution of drugs to consumers. For one, the retail selling of different types of drugs quickly adapted to the social distancing measures put in place by governments by increasing the use of delivery services as well as drive-through and internet-based distribution. "These dynamics are especially relevant for cocaine, which, due to its high price relative to other drugs, in many countries has a significant consumer base among the higher-income population with increased access to and familiarity with the relevant platforms - although Brazil in particular is also affected by extensive consumption among less affluent population segments"¹²⁷. The increased use of delivery services can also explain the increased number of seizures of cocaine, in base form, from motorcycles by the Military Police. Likewise, interaction between drug dealers and consumers increasingly migrated to social media platforms, such as WhatsApp groups, Facebook, Instagram, and dating sites, where the drug is typically retailed at a higher price point than on the street¹²⁸.

Seizure patterns in Brazil also reflected significant shifts due to pandemic conditions. For one, there was an increase in cocaine seizures in the states of Mato Grosso and Mato Grosso do Sul - both bordering Bolivia. Authorities suspect that travel restrictions may have made the use of traditional channels of trafficking via land routes from Paraguay more difficult thus transforming the states bordering Bolivia into a more viable alternative for clandestine flights carrying large loads of cocaine into the country. Not only was an increased interception of small aircrafts entering Brazil registered but there were also more aircraft-related incidents reported by the media in this period. This seems to be reflective of a broader pattern of an increased use of private aircrafts for smuggling the drug both into Brazil and also to move it internally, given that cargo truck movement was much more restricted. There was a “certain gravitation of cocaine consignments seized in the western border states towards the range of 400 - 550 kgs per seizure” (corresponding to the load capacity of the single-engine aircrafts often used to smuggle drugs into the country), “and a roughly opposite dynamic, accompanied with a general shift towards smaller seizures, in the states with access to the Atlantic Ocean” ¹²⁹. This is a pattern diametrically opposite to the one that existed pre-pandemic. Given that the cocaine supply chain logistics in Brazil involve a process of centralization, consolidation and redistribution to seaports using mostly land but also some air modalities, this shift in pattern can be explained by post-pandemic restrictions on movement which created difficulties in moving cocaine from the border to exit points on the coast but also augmented cross-border smuggling by air along the western frontier ¹³⁰.

There was a clear shift in marijuana smuggling patterns as well. From April 2020 to March 2021 marijuana seizures increased by 107% year on year, reaching almost 600 tons. It is supposed that the increase in seizures reflected a drop in eradication activities and difficulties in cross-border collaboration due to the pandemic. Unlike the cocaine smugglers, who turned to the use of clandestine aircrafts and airstrips, marijuana smugglers moved to more remote areas. “According to the UNDP, in the north of Brazil, the cities of Pacaraima and Boa Vista were entry points for Colombian marijuana, arriving by boat through Venezuelan waterways. And in the south, the state of Rio Grande do Sul saw the emergence of new trafficking clusters in 2020 that were not present in 2019, as marijuana from Paraguay was brought across”. The result was an overall increase in marijuana imports into Brazil ¹³¹.

Figure 5: Flow of Illicit Goods and Activities Through the TBA



3. KEY ACTORS INVOLVED IN ILLICIT TRADES IN THE TBA:

Local, regional, and international criminal organizations and mafias

There are many criminal organizations, mafias-style groups, and other actors involved with illicit activities that have ties to and/or presence in the TBA. The presence of these actors is dynamic and ebbs and flows with time and shifts in broader patterns of illicit flows. Depending on the strength, capability, and reach of the actor, they either have a direct presence/faction based in the TBA or even a full-fledged headquarters¹³². We often see competition, and even violent ‘turf-wars’, between different factions for the control of illicit trades. It should come as no surprise that the cities and towns in the TBA - on all sides of the border - have some of the highest homicide rates in not only their respective countries but also the region in general.

Key OCGs from Brazil, Argentina, and Paraguay all operate in the TBA. There is also a continuous ebb and flow of regional and international mafia-style groups. All these groups interact and intersect in the same criminal space and economies. As mentioned previously, the most powerful Brazilian group in the TBA at the moment is the PCC, who are heavily involved in moving Paraguayan marijuana and cocaine from Colombia, Bolivia, and Peru into Brazil and beyond via the TBA. After the PCC, the Brazilian Red Command (Comando Vermelho or CV) is the second most powerful Brazilian OCG in the region. In addition to being directly involved in illicit trades like drugs and arms in and via the TBA, these criminal organizations are also responsible for other illegal activities, ranging from bank heists to money laundering and counterfeiting. The PCC, for instance, is credited with executing one of Paraguay’s biggest heists in April 2017 when they attacked the vault of the private security company, Prosegur. In what was described as a three-hour long gun-battle on the streets of Ciudad del Este, the PCC burnt cars, used anti-aircraft grenades, Molotov cocktails packed full of bullets, heavy weaponry, and got away with approximately US\$8 million of the US\$49 million held inside the vault¹³³.

In addition to the PCC and CV, two additional Brazilian criminal groups are worth mentioning. First, Primeiro Grupo Catarinense (PGC), runs the drug trade in the Brazilian state of Santa Catarina and its capital, Florianópolis. Several PGC members were arrested by Paraguayan authorities in Alto Paraná in 2019, leading many to suggest that the group may be seeking to make inroads into the TBA and its lucrative criminal economy. Second, the group Bala Na Cara (BNC), which literally translates to ‘bullet in the face’, has been located in several cities in Paraguay. Some analysts argue that BNC works in alliance and as a subordinate to the PCC.

In addition to the local criminal groups from Argentina, Brazil, and Paraguay, police sources confirm the presence of both regional and international criminal actors operating in the TBA. Groups can be distinguished into four types, based on their composition (i.e. leaders and membership): 1. Criminal groups made up exclusively of Paraguayans; 2. Groups that are led by non-Paraguayans, a characteristic that then becomes the key determinant of their identity (i.e. Chinese, Japanese, Nigerian etc.); 3. Groups which are clearly identifiable by name irrespective of the nationalities of their leaders and/or members (e.g. the PCC or CV); and finally, 4. Entrepreneurs are individuals who participate in illicit activities thanks to their contacts and/or knowledge of the TBA without formally being a part of a criminal group¹³⁴ (see also section on freelancers and hired hands below).

There are groups that are described as clans - these can be either composed of local families or members of local security forces (including the Paraguayan police and military). Five local family clans and two clans composed exclusively of security forces were identified in Ciudad del Este in 2022¹³⁵. The Rotela clan deserves a mention. It is led by Armando Javier Rotela Ayala, known as the “tzar of micro-trafficking”, who set up the system for the distribution of crack in Asunción. The group not only traffics drugs in the main neighborhoods of Asunción but also has a significant presence in the country’s penitentiaries, making it the only criminal group capable of confronting the PCC’s expanding control of the prison system. While exact numbers are not available for the number of members of the Rotela clan inside prisons, it is estimated that 50% of drug trafficking in penitentiaries is run by the Rotelas¹³⁶. The Rotela clan is only present in the prisons of Alta Paraná, but they still pose a latent threat to the region.

Groups led by non- Paraguayans are often referred to as mafias locally (albeit the more accurate term would be mafia-style groups), and Martens et al. identified the presence of Chinese, Japanese, and Bangladeshi mafia-style groups in Ciudad del Este in 2022 during the course of their fieldwork. Beyond Ciudad del Este, in other cities of the TBA and linked regions - Saltos del Guairá and Pilar specifically - various other clans and groups were identified. In Saltos del Guairá, at least 20 Paraguayan family clans were identified along with the PCC and CV. In Pilar, local clans with close ties to individuals and groups in the border regions of Argentina were identified. While there are more clans and criminal organizations in Saltos del Guairá, those in Ciudad del Este were more powerful thanks to their logistical capabilities along with their domestic and international reach.

The Brazilian PCC and CV operate in the region with Paraguayan members and/or collaborators, both inside the penitentiary system and outside the prisons. Other Brazilian groups, such as Bala na Cara and the Primeiro Grupo Catarinense, operate via local intermediaries in the TBA, although some analysts have argued that BNC is allied with the PCC. These intermediaries are either from local family clans or members of the state security forces. The clans composed of security forces are made up exclusively of uniformed officers working in coordination with members of the Public Prosecutor's Office, the judiciary, local media, and other members of the political establishment - connections that grant them impunity to undertake illicit activities ¹³⁷. Police and military clans also sell protection and leverage to criminal groups, facilitating their ability to operate in this region.

Other regional and international OCGs include groups from Chile, Colombia, Corsica (France), Côte d'Ivoire, Ghana, Libya, Italy, Korea, Lebanon, Nigeria, Peru, Russia (mostly Chechen), Taiwan and Ukraine. Chinese, Korean, Lebanese, and Taiwanese mafias are closely tied to importing counterfeit compact discs (CDs) and CD-ROMs from Asia and have links to organized crime in Korea, Lebanon, Libya, and Taiwan ¹³⁸. There are old reports - from approximately the early 2000s - that also speak of the Russian mafia-style groups in Argentina and describe these groups as using the country to transport drugs sourced from Andean countries outwards towards Europe and Africa. In the TBA, more specifically, these reports speak of Russian criminal groups like the Podolskaya, Mazukinskaya, Tambovskaya, Izamaylovskaya, and Solntsevskaya, involved in drug trafficking, arms smuggling, money laundering, and contraband selling. The same set of sources speaks of links between Chechen separatist groups and Islamist terrorists, specifically for the purpose of arms smuggling (AK-47s and Soviet-era rocket launchers). They believe that these OCGs used the same routes to smuggle arms across Brazil into Colombia as they used to smuggle cocaine out of Colombia into Brazil and towards Europe. Evidently, these groups are also closely linked to FARC - which itself has ties with Hezbollah in the TBA ¹³⁹. It is worth noting that there is nothing more concrete or recent to prove these claims. However, a peppering of media reports from across Latin America clearly shows a persistent and possibly growing presence of Russian criminals in the region. There is also some evidence of the potential involvement of senior officers from the Kremlin in both the criminal activity of the region and in its opposition (see box 4).

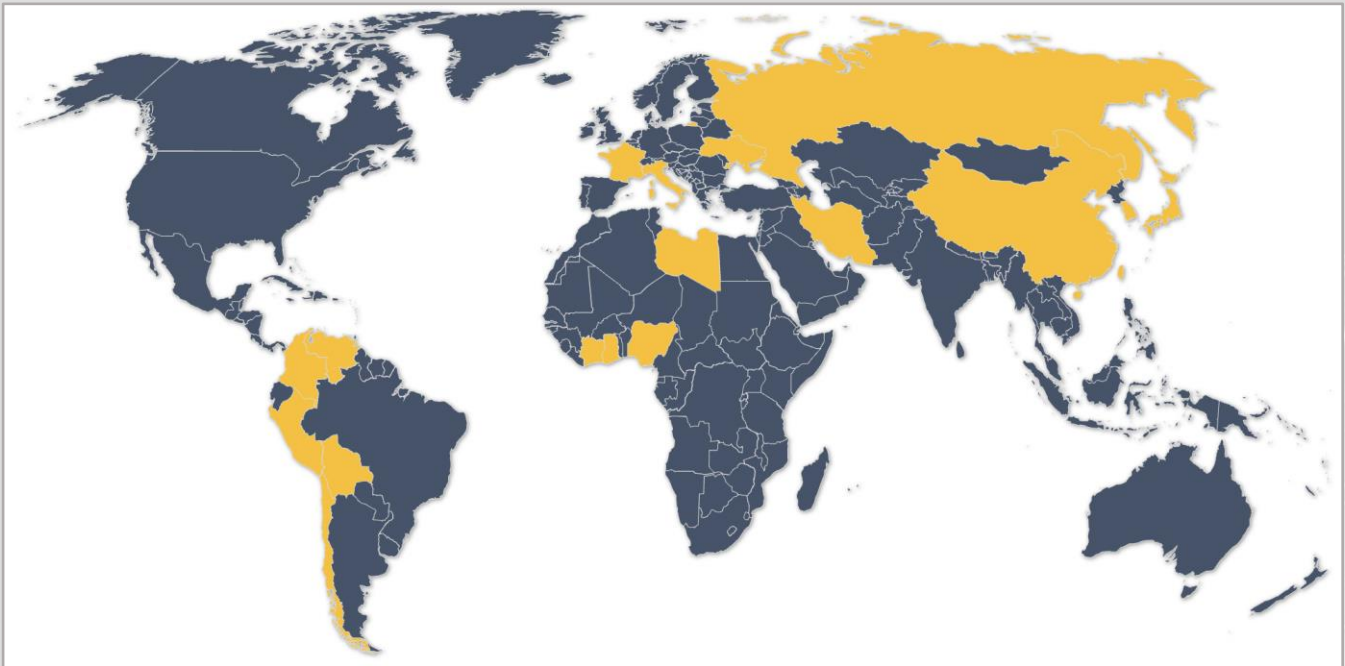
Box 4: The Russia - Argentina Cocaine Plot

Nearly half a ton of cocaine was seized from the Russian embassy in Argentina in December 2016. The Argentine Security Minister Patricia Bullrich was tipped off by Russian Ambassador Viktor Koronelli who asked that diplomatic suitcases being stored in a school on the embassy grounds should be searched. When Argentine authorities, working in conjunction with the Russian federal security service, investigated further they found more than 850 pounds of high-quality cocaine hidden inside the diplomatic luggage. Over the course of the next year, investigators unearthed a network of corrupt Russian and Argentinian officials in the police and diplomatic service. A district court in Russia sentenced Andréi Kovalchuk, the alleged mastermind of the operation who was arrested in Germany in 2018 and extradited to Russia, to 18 years in prison in early 2022. There is some suspicion that senior officials in the Russian government were involved in the plot but nothing concrete has been proven. Some analysts, argue that this was a one-off plot attempting to move a large shipment of cocaine into Europe via Russia - the reverse of the traditionally used drug route where the shipments move out of Latin America towards Spain, Belgium, and the Netherlands. It is possible that the Russian traffickers purchased the drugs from the Italian 'Ndrangheta which has business relations with the PCC in Brazil.

Source: Albaladejo, A. ¹⁴⁰

The Chinese OCGs in the region are reported to be involved in extortion, even of the Chinese immigrants located in the TBA, who analysts say are forced to buy goods imported from China and/or Hong Kong in exchange for 'protection'. Chinese groups like the Fu Shin, Tai Chen, Fei Jeii, Fuk Ching, the Big Circle Boys, and the Flying Dragons have been previously documented in the TBA ¹⁴¹ and first arrived in the TBA in the 1980s when the Paraguayan government encouraged Chinese immigration to promote commercial activities in the region ¹⁴² (see Map 4).

Map 4: Countries of origin: non-local criminal organizations and mafias with significant presence in the TBA



Source: Designed by the authors

Terrorist, insurgent, and armed groups: the crime-terror nexus in the TBA

The crime-terror nexus is a sensitive and somewhat controversial argument to make for the TBA. The analysis of the terrorist threat emerging from the TBA and the crime-terror nexus in the region diverges considerably, in part because of variations in the classification of terrorism/terrorist organizations as well as core differences in the national policies of Argentina, Brazil, and Paraguay. Having said that, all three countries have, at one time or another, claimed that assertions about the presence of different terrorist groups in the region, especially Islamist organizations like al-Qaeda and Hamas, are ill-founded and unsubstantiated. However, organizations such as Interpol, and the US Treasury, and the Department of State, have repeatedly asserted that there are clear linkages between proscribed international terrorist organizations and the TBA. Much of these linkages are ideological and/or financial, with sympathizers in the TBA providing both monetary and moral support to groups abroad. It is also argued that the unique makeup of the TBA in terms of its geography, economy, and society facilitates the use of the region by terrorist groups. The fact that the border area is poorly monitored and porous with easy access to urban centers and airports (legal and clandestine), the presence of different ethnic communities as well as a floating population, and the presence of two FTZs all allow for illegal activity which has been used to raise and launder money in support of the various insurgent and terrorist organizations that move through and/or operate directly or indirectly in the area. Perhaps the best-known example of the crime-terror convergence of OCGs is the 1994 AMIA bombing in Buenos Aires, which was traced back to the TBA and the Iranian government, although various more recent cases have emerged and are discussed below.

Given the facility with which money moves into and out of the TBA, remittances are a key concern. Substantial funds are generated for various designated groups via foreign remittances from the TBA. For instance, we know of Hezbollah's long-standing links to the TBA, and oftentimes, members and affiliates of such organizations are able to camouflage their presence and activity by embedding themselves within the substantial Arab community residing here and benefitting from the black-market economy that already exists here. Some reports estimate that the Lebanese Hezbollah earns over \$10 million per year via remittances sent by sympathetic Lebanese diaspora across the globe. A substantial percentage of the remittances from the TBA trace their origins to illegal activities such as smuggling of duty-free products, drug trafficking, arms smuggling, counterfeiting, and money laundering. Other insurgent organizations, such as the Colombian FARC, are also well-entrenched within the region's illicit economy, not only via the arms and drug trade but also thanks to direct links with other groups operating in the region. FARC, it is worth remembering, has been linked to the extremist group *Partido de Patria Libre* (Free Fatherland), which was responsible for the 2005 abduction and subsequent murder of Cecilia Cubas, the daughter of Paraguay's Vice-President, Raúl Cubas.

Some key Hezbollah related cases that have emerged in recent years out of the TBA are:

1. **The Barakat network**, allegedly led by Assad Ahmad Barakat, the personal representative of Hezbollah's Hassan Nasrallah, has been linked to DVD piracy, general piracy and counterfeiting, drug trafficking, racketeering, illegal gambling, and extortion. Assad Ahmad Barakat was finally arrested by the Foz police in September 2018 after being a fugitive for nearly a decade. He had been included on the US Department of Treasury's list of terrorist financiers since 2004 and identified by Paraguay's Anti-Terrorism Department as one of the three main fundraisers for Hezbollah in the region. The Barakat network was also linked to money laundering, hawala, and document fraud. According to various reports, the network transferred significant funds to the Lebanese Hezbollah, with some estimates placing this at US\$ 20 million per year. The family was linked to the 1994 AMIA attack in Argentina, and in 2001, Paraguayan police found members of the clan in possession of Hezbollah propaganda, including material promoting suicide terrorism ¹⁴³. In November 2018, another member of the clan, Mahmoud Ali Barakat, was extradited by the Paraguayan justice system to the USA under accusations of money laundering and sending part of these funds to a Hezbollah related tax haven in the Caribbean.
2. The 2018 arrest of **Nader Mohamed Farhat** for managing the transfer of funds for Mahmoud Ali Barakat into a Hezbollah related tax haven in the Caribbean via his exchange house (Unique) in Ciudad del Este. Mahmoud Ali Barakat and Farhat were linked to a larger network of OCGs operating in the TBA, dispatching drugs out of the area. Farhat's arrest revealed the intricacies of TBML in the TBA, with Farhat operating as a key money launderer for organizations involved in narcotics and other illicit trades. ¹⁴⁴. The drug money laundered by Farhat for Hezbollah was estimated to be approximately US\$ 300 million per year, while drug trafficking revenues were estimated at US\$ 500 million per year.
3. The 2021 **Kaseem Mohamad Hijazi** case in which a joint US and Paraguayan government operation extradited Hijazi, a Brazilian citizen of Lebanese descent, from Ciudad del Este to the United States under accusations of leading an international money laundering operation involved in funding Hezbollah's terrorist activity since at least 2017. Shortly after Hijazi's arrest, the US Department of Treasury imposed anti-corruption sanctions against Hijazi, his first cousin, and one of his Paraguayan business associates and designated five organizations connected with their corrupt business schemes. Hijazi used over 110 import and export front companies to move goods through Paraguayan ports into the country before using exchange brokers and banks in Ciudad del Este to transfer his illicit profits to multiple countries around the world, including the USA, China, and Hong Kong ¹⁴⁵.

It is worth noting that many of the cases ostensibly related to Hezbollah also involved links with other criminal and terrorist organizations. These include the **Ali Khalil Mehri** instance that involved a Lebanese naturalized Paraguayan citizen linked to the Barakat clan who was accused of selling millions of dollars of counterfeit software and channeling the profits to Hezbollah and its parallel organizations, **al-Muqawama** and **al-Shahid**. Another was the **Farouk Abdul Hay Omairi** case where, a Lebanese businessman who had illegally acquired Brazilian citizenship was arrested, along with his two sons, in Foz de Iguaçu. Omairi was accused of heading a cocaine trafficking network, links with Hezbollah and promoting relations between the Middle Eastern terrorist group and the Brazilian **PCC**. There is also the incident of **Nasser Abbas Basmad**, a key figure in money laundering, drug trafficking and financing inside Hezbollah, and his female Lebanese associate, **Hanan Hamdad** also linked to Hezbollah. Both were accused of being partners in three separate companies registered in Australia: GC Garden Charcoal (officially a source of BBQ charcoal), Garden Shi Sha and Knight (for shisha tobacco and cigarettes respectively). Hammad also established the Iraq-based company Global Trading Group (GTG) PTY Ltd., which was then used to create two additional subsidiaries: CG Charcoal Garden and Master Nanoking Argento. Investigations not only revealed the links between Hammad and Hezbollah but also showed that GTG was a Hezbollah linked shell company used for trafficking cocaine disguised as shisha charcoal to various countries. Also connected were **Colombian cartels** as seen in the 2018 raid on a lab whose ringleader had previously worked for these cartels and where Colombian nationals were processing cocaine into fake charcoal to be shipped into the Middle East. Similarly, a raid in October 2020 Paraguayan police arrested five more people, after finding nearly 3 tons of cocaine hidden in a charcoal shipment at a private port 45 kilometers from Asunción. Authorities reported that the drug was destined for trans-shipment to Israel ¹⁴⁶.

In addition to the **PCC** and **CV** maintaining strategic ties with Hezbollah and its sister organizations in the TBA, we also have reports of collusion between Hezbollah and Mexico's **Los Zetas** and **Sinaloa**, Colombia's **El Envigado**, and the Venezuelan **Los Soles** ¹⁴⁷. In all cases, we are also increasingly seeing the involvement of **business elites** in the illicit flows out of the TBA, especially with regard to cigarette smuggling.

It is also worth discussing **Operation Trapiche**, which has essentially underscored the presence of Hezbollah in the region, particularly in the TBA. Launched on November 8, 2023 by the Brazilian Federal Police, the initial phase of the operation led to the arrest of three Brazilian citizens and the issuance of international arrest warrants for two other suspects. The suspects were investigated because of their alleged association with Hezbollah and for either recruiting for the group or for plotting attacks against Jewish community targets within Brazil at their behest.

Police investigations expanded to include suspects throughout most of Brazil. One of the suspects of Operation Trapiche revealed that he received terrorist attack instructions from a WhatsApp number in Paraguay. It was also discovered that a second key suspect identified in the case had resided in Paraguay before moving to Brazil. This individual had been previously investigated for using front companies and forged documents to illegally import goods from Paraguay without paying taxes. He later moved to the city of Belo Horizonte in the Brazilian state of Minas Gerais, where he established two tobacco shops. He had already been under investigation for at least six months before the official launch of Operation Trapiche for financing Hezbollah-related terrorist activities through the smuggling of electronic cigarettes via the TBA¹⁴⁸. It is worth highlighting that, according to the Brazilian Federal Police, the routes used to smuggle electronic cigarettes via the TBA into Brazil are the same as those identified for moving illegal cigarettes¹⁴⁹. Therefore, there exists a high possibility that the operatives, middlemen, modes of transport etc. also overlap. The suspected involvement of Hezbollah with tobacco smuggling in the TBA is not new. In 2016, a report from the Israeli Ministry of Health pointed out the tobacco was an important source of revenue for the group¹⁵⁰. On 26 January 2023, the U.S. Department of the Treasury's Office of Foreign Assets Control (OFAC) sanctioned Horacio Manuel Cartes Jara, the former President of Paraguay, and Hugo Adalberto Velazquez Moreno, the current Vice President and companies owned or controlled by Cartes, including Tabacos USA Inc, for their involvement in rampant corruption and for having ties to members of Hezbollah¹⁵¹.

Corrupt politicians, police, military, customs, and judiciary officials

A notable category of actors in the TBA includes actors that are linked to the state - i.e., they are either corrupt politicians or in some way part of the state's local or national governance structures. A series of cases in all three countries of the TBA clearly shows the involvement of political elites in illicit activities. Perhaps the most notorious example is that of Paraguay's former president, Horacio Cartes. The so-called 'Tobacco Lord'¹⁵² has been identified as the region's largest producer of illicit tobacco. He has also been linked to money laundering (via Banco Amambay) and drug trafficking in the region. Various sources claim that Tabesa is responsible for just under 50% of the contraband tobacco sold in Argentina and Brazil and there have been countless seizures of Tabesa branded product in both countries. Tabesa is also involved in smuggling cigarettes into Guatemala, Mexico, Ecuador, Suriname, Venezuela, Panama, and Colombia¹⁵³. Cartes and Banco Amambay were also named in the Brazilian *Lava Jato* investigations for links to a money laundering scheme involving Banco Paulista and the construction company Odebrecht. Cartes has also been linked to a Brazilian money launderer, Dario Messer, who was arrested in July 2019 in Sao Paulo¹⁵⁴.

High levels of corruption amongst governmental, political, and diplomatic officials in the TBA allow OCGs and terrorist organizations to operate with impunity - to bribe judges, buy forged documents and engage in any number of illicit activities that sometimes also overlap with legitimate economic activities in the region. The multiple overlaps with illicit actors and dirty politicians enable the former to operate with a certain degree of political protection and impunity from justice. What has resulted is the steady degradation of the democratic rule of law in the region, which, over time, risks turning the region into one completely controlled by criminal interests. We have seen this in the TBA with traffickers bankrolling politicians in return for political and judicial protection. We also see politicians with clear business and criminal interests and operations in the region continue to thrive despite ample evidence of their nefarious activities.

The case of ‘Cucho’ Cabaña is a case in point of crossovers between illicit actors and politicians in the TBA. Reinaldo ‘Cucho’ Cabaña Santacruz, was allegedly a dealer in Alto Paraná, who was involved in trafficking cocaine, marijuana, and laundering money. In expanding his business interests, ‘Cucho’ aligned with police commissioners, lawyers, prosecutors, and judicial officials. It is believed that he regularly paid bribes in the range of \$400 - \$15,000 to prosecutors in the Alto Paraná to ensure they turned a blind eye to his operations, provided critical intelligence, and even blocked arrest warrants against his operatives and allies. However, it was congressman Ulises Quintana, of the ruling Colorado Party in Alto Paraná, who has been identified as ‘Cucho’ Cabaña’s most important connection and ally. It is believed that Cabaña bankrolled and helped with the logistical planning of Quintana’s election campaign in exchange for political and judicial protection ¹⁵⁵. What began as a barter of goods and services blossomed into a business relationship between Cabaña and Quintana till eventually cooperation between Paraguay’s SENAD and the Brazilian Federal Police was able to collect the physical evidence needed to bring Cabaña and his organization to justice. Quintana who was also arrested as part of this sweep ¹⁵⁶ is a notable example of how weak state capacity when combined with a general erosion of democratic norms can function as a force multiplier for criminal activity.

We also have the case of the Zacarías clan who are the traditional power brokers in the department of Alto Paraná. In more recent years they have become closely allied with Horacio Cartes’ political wing, Honor Colorado. Javier Zacarías Irún is a serving national senator and his wife, Sandra McLeod is the former mayor of Ciudad del Este. Other members of the clan have held prominent political positions and or government posts. In addition to being associated with the region’s contraband business the family has been accused of involvement in corruption scandals and investigated for crimes of illicit enrichment. The Zacarías clan has also been accused of privatizing municipal lands along the Puente de la Amistad ¹⁵⁷.

Freelancers and hired hands

A final group worth mentioning is the hired hands and freelancers. These are essentially entrepreneurs who conspire with traffickers involved in different illicit trades without formally belonging to a specific group or mafia. They can belong to the region and take advantage of the opportunities offered by the criminal economy in place to earn a living, sometimes quite lucratively. We find these individuals on all sides of the borders of the TBA and. there are many examples, as well as operations conducted by Argentine, Paraguayan, and Brazilian authorities, that mention the presence of these entrepreneurs as facilitating criminal enterprise, both in the TBA, and beyond. These entrepreneurs sometimes leverage social and/or familial links with corrupt state officials to enable illicit activities. At other times, they are hired because of their specific position of privileged access to areas and/or services that can facilitate the smuggling process.

In July 2022, for example, the Brazilian Federal Police dismantled a ring that bribed airport employees to ship cocaine to Europe in the bulk cargo compartment of commercial flights from São Paulo’s Guarulhos International Airport. Guarulhos is the largest airport in Latin America, and the flights targeted by the organization were destined for Lisbon, Frankfurt, or Amsterdam. The authorities seized over 900 kgs of cocaine in these four cities over the course of the operation which was named ‘Operation Bulk’ thanks to the use of the airplanes’ bulk cargo compartments. The operation not only showed how independent airport workers were complicit in the trafficking of large quantities of cocaine but also showed remarkable similarities with a case from 2021 where the police targeted another group “made up of employees of outsourced airport logistics companies, who conspired with traffickers to move cases containing 30 to 200 kilograms of cocaine through inspection areas without being scanned” ¹⁵⁸.

Another similar case, Operation Tupp, from 2022 involved a criminal group that transported cocaine in small, modified aircrafts both within Brazil and to other countries through a network of contacts that included pilots, merchants, and businessmen. The planes were loaded with the drug in Bolivia and Venezuela before flying to countries in South and Central America such as Guatemala and Belize. The planes used for the trafficking were acquired and modified by freelancers. Danilo Robatto, an officer from the Federal Police responsible for the investigation stated: "We believe that they are like freelancers, they work for various groups of traffickers who hire them, and they are responsible for this freight, this drug transport. I believe that two of those investigated are responsible for hiring pilots, purchasing planes, fraudulent registration of these aircraft " ¹⁵⁹.

4. ENABLING ENVIRONMENT

Geographical location

The unique geography of the TBA has been described previously. As such, we will keep this section brief, merely recapping the main points raised previously. The TBA combines the advantages of a large, porous, isolated, and hard-to-monitor border characterized by the presence of urban centers with all the benefits of the facilities that they offer in terms of infrastructure and technology. The heterogeneous population of the region combined with its lax immigration controls is also a key enabling factor for organized crime and terrorist activity. There is a huge floating population thanks to tourism as well as the presence of two free trade zones. Paraguay's geographical position in Latin America also makes it incredibly well suited for transporting goods - both legal and illegal - from the Andean countries southward and vice versa. In addition, Brazil's enormous coastline and, increasingly, Argentine and Uruguayan ports are exploited to move trafficked goods out of the continent towards Africa, Europe and beyond. Goods are also smuggled northwards into Panama and the Caribbean and then onwards to North America. The TBA is known for its ease of accessing forged documents via corrupt officials - from passports and visas to driver's licenses and birth certificates. Illegal activity is facilitated by an environment of weak institutions and endemic corruption.

Political Factors

Argentina is a democracy characterized by competitive elections, an active media and civil society sector, and where public debate is both rich and undeterred. The clearest challenges are chronic economic instability, deep-rooted corruption in the government, police, and judiciary (see the section on corruption), and drug-related violence (see the section on drugs). Brazil too is a democracy with competitive elections and a political arena that is characterized by lively, albeit deeply polarized, public debate. Unfortunately, it is a country also characterized by a high level of violence with a history of harassment and violent attacks against independent journalists and civil society activists. There are high levels of inequality with historical structural discrimination against

Table 6: Political Freedom in Argentina, Brazil, and Paraguay

	Political rights (as scored out of 40)	Civil liberties (as scored out of 60)	Safeguards against official corruption (as scored out of 4)	Total score (out of 100)
Argentina	35	50	2	85
Brazil	30	42	2	73
Paraguay	28	77	2	65

Source: Freedom House, 2022

segments of the population and the economic exclusion of these groups and other minorities. Corruption is endemic and there is an abject disregard for human rights by large sections of military and police personnel. Brazil also has the unfortunate reputation of being one of the world's worst countries for the LGBT+ community. Paraguay's democracy is dominated by the conservative Colorado Party. The key challenges of the country are wide-spread and deep-rooted corruption, organized crime, environmental destruction, and systemic discrimination against the land and spiritual rights of the rural and indigenous populations. Poverty and gender-based discrimination contribute to these

challenges and not only limit the rights of women and children but also make them more susceptible to exploitation (see Table 6).

The presence of Free Trade Zones (FTZs)

Governments across the world are investing in free trade zones (FTZ) as a means of promoting economic growth and investment. Over the past few years, various countries have expanded cooperation with other free zones and/or aggressively expanded their own FTZs. In 2018 alone, the Dubai Multi Commodities Center had a record 1,868 new companies register in its FTZ; Djibouti inaugurated what is Africa's largest FTZ, and UK's Boris Johnson announced his intention of setting up 10 new free ports to counter the effects of Brexit. However, with all this economic growth also come risks and, the EU has been actively discouraging FTZs for some time now, going as far as to describe them as a "new emerging threat" in the financial sector ¹⁶⁰.

The TBA has two FTZs - Ciudad del Este in Paraguay and Puerto Iguazu in Argentina. Paraguay's FTZ has two areas, both located in Ciudad del Este of Paraguay's Alto Paraná region, close to the border with Argentina and Brazil. Both these areas of the FTZ, called *Zona Franca Global* and *Zona Franca Internacional*, respectively, have been operational since 2003. Paraguay's FTZs offer significant tax incentives for all types of commercial, industrial, and service operations. The duty-free tax rate in Paraguay's FTZs is a mere 0.5% and there is exemption of VAT. The aim of the FTZs is to develop commerce and connections with foreign markets although onshore (i.e., within the country) activities are also allowed. Law No. 523/95 which was introduced in 1995, "authorizes and establishes the free trade regime" ¹⁶¹ and as such provides the legal framework for the tax incentives of these FTZs. This law gives investors tax breaks, allows for the full repatriation of capital and profits, supports *maquila* operations (special benefits for investors in manufacturing exports and a unique tax regime levied at the rate of 1% of the value added locally or on the value of the invoice issued by order and on account of the headquarters, whichever amount is higher) and guarantees national treatment for foreign investors ¹⁶². Two entities can be located within this structure: a) the 'user' who is undertaking "the commercial, industrial, or service activities, and b) the 'concessionaire' who provides the infrastructure for freight operations" ¹⁶³.

"The tax exemption in the Free Trade Zones applies to the companies formed in the DFZs (duty-free zones, the same as the Free Trade Zones) and the remittance of profits or dividends to third countries. The Free Trade Zone companies also enjoy the exemption for the payment of royalties, commissions, professional fees, interests, and any other remuneration for services, technical assistance, technological transfers, loans and financing, leasing of equipment, and any other service rendered from third countries to the Users of Duty-Free Zones" ¹⁶⁴.

The main sectors of activity for the two FTZs are: commercial activities, warehousing, industrial activities; assembly and manufacturing goods for export; services, repairs and maintenance of equipment and machinery ¹⁶⁵. In April 2016 there were 108 *maquiladoras* registered as part of the *maquila* regime and they exported US\$ 284 million worth of goods in 2015. 80% of the investors in the FTZs are Brazilian. Indeed, most goods (reportedly as high as 98%) imported into these two FTZs are re-exported to Brazil ¹⁶⁶.

The Zona Franca Puerto Iguazú is an area of 42 hectares which is an Extra Customs Territory in Argentina. The goods that enter and remain within its boundaries are exempt from paying taxes and duties on import and export, until their final destination. The national and international public tender for the construction, maintenance, and operation of the Puerto Iguazú FTZ was launched in 1999. Construction began in 2000 and the zone was officially inaugurated in March 2002 by President Eduardo Duhalde with an investment of over US\$ 10,000,000. The Puerto Iguazú FTZ is a key location for the Mercosur trade movement and provides all necessary services and infrastructure for all types of commercial and/or industrial activities. Its list of services include showrooms, logistics for handling loads, communication infrastructure, technological support for the control of merchandise, energy, security, transport of personnel to and from warehouses, dispatch and transport agency offices, concrete storage deposits (both thermally insulated wall tanks and open spaces), load vehicles, an effluent treatment plant, coastal access to the Iguazú River with access to the Paraná and Paraguay rivers and a 21,000 square meter duty free shop which is a key tourist attraction ¹⁶⁷.

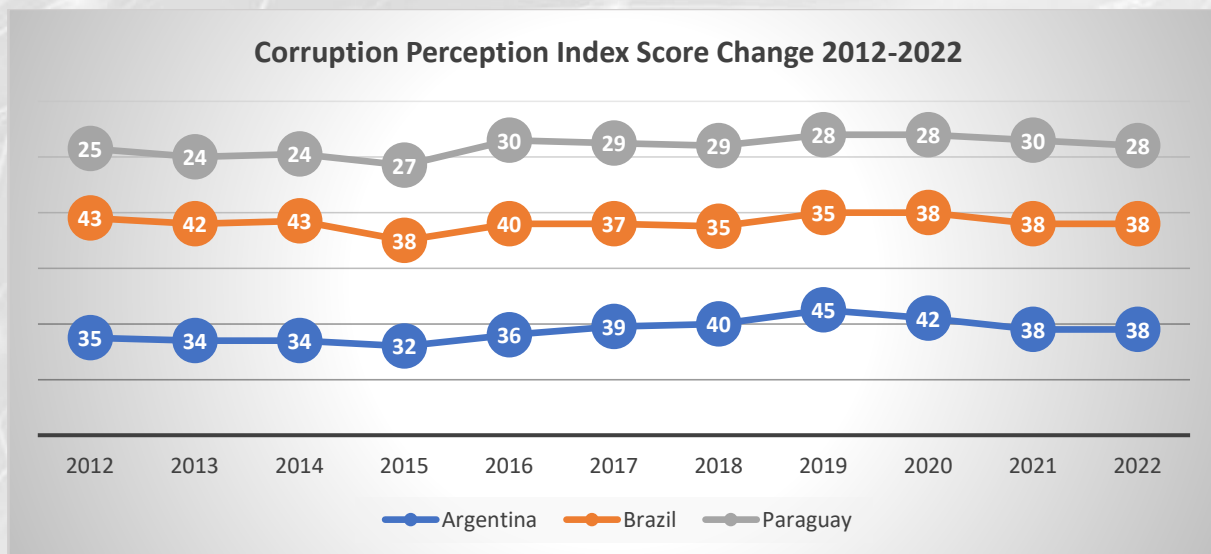
The FATF identifies all FTZs as ripe spaces for TBML thanks to the "misrepresentation of the price, quantity or quality of imports or exports, phantom shipments, and falsification of invoices. FTZs are the weakest link in the fight against dirty money because of how easy it is to engage in the three stages of money laundering: placement, layering, and integration" ¹⁶⁸. Within this matrix, Paraguay's Ciudad del Este stands out as the largest illicit economy in the Western Hemisphere, with clear links to counterfeits, weapons, drugs, and human smuggling, as well as ties with international terrorist organizations, like Hezbollah. Minimal customs enforcement and different customs regimes in all three countries in the region are also key challenges in countering illicit flows. More recently, there has been some customs integration between Paraguay and Brazil, initiated by the latter, with the hope of producing better results in countering illicit activities. However, the entrenched culture of bribery, delays in equalizing differences in the legislation and differences in the 'cultures of the customs agents of both countries all represent serious hurdles" ¹⁶⁹.

Endemic Corruption

National corruption is a key enabling factor in the TBA, and the state's participation in corrupt activities facilitates transnational illicit flows and organized crime syndicates as well as terrorist activity. The TBA is characterized by the presence of dirty cops and administrators, corrupt mayors, judiciary, and parliamentarians. Four broad types of corruption can be identified in the region: 1. Bribery and extortion; 2. Judicial corruption; 3. Favoritism and patronage; 4. Tax evasion and money laundering. In all cases, the state's inability and/or unwillingness to actively fight corruption risks the weakening of democratic institutions and a concomitant increase in violence and entrenchment of organized crime in public institutions. It is also worth noting that all three countries of the TBA score poorly on the corruption index released by Transparency International. In 2022, Paraguay scored 28 (rank 137) on the corruption index while, Argentina and Brazil tied with a score of 38 (rank 94). In comparison, Denmark, with a score of 90 on the corruption index, ranked (1) as the least corrupt country in the world in 2022. In its 2016 report, Transparency International noted, "international diagnostics show that corruption in Paraguay is widespread and involves multiple sectors of government and private enterprise" ¹⁷⁰ (See also Figure 6).

Corruption exists at both the national and local levels in Argentina. Although OCGs have not been able to penetrate the state at the national level, networks of political elites have been accused of involvement in money laundering schemes and accepting bribes. For example, in December 2022, Argentina's former president (2007 - 2015) and current vice-president (2019 - December 2022), Cristina Fernández de Kirchner, was accused of not only leading a money laundering network but also accepting bribes to grant public work contracts, gambling licenses and permits linked to the oil industry. She has been sentenced to six years in prison and has been served a lifetime ban from holding political office which she is appealing. Prosecutors say that she, along with others, skimmed nearly \$1 billion from fake contracts and the bogus construction of 51 public works during her term as president ¹⁷¹. In Argentina's border regions, localized networks composed of corrupt policemen, judges and politicians facilitate a booming trade in marijuana and other illicit goods ¹⁷². The Itatí trials, described previously in this report, that linked a marijuana smuggling crime ring to a local network of politicians and police officers, are a case in point. The Argentine police in general reportedly struggle with corruption at all levels. The police are poorly paid, and there have been many cases of police officers involved in organized crime (see box 2).

Figure 6: Corruption Perception Index Scores 2012-2022



A similar situation exists in Brazil, and various reports have pointed out the involvement of congressmen (federal deputies), state governors, state deputies, mayors, judges, police officers, and lawyers in crimes ranging from drug and arms trafficking to tax evasion. Foz do Iguaçu plays a central role in this corruption, especially with regards to money laundering. Brazil is also notorious for militias composed of active and retired police and prison officers. These militias are involved in all sorts of activities, including extortion and extrajudicial killings. They are also hired by businesspeople and landowners in rural spaces to drive out local resident populations. In general, these militias also contribute towards escalating violence, corruption, and money laundering ¹⁷³.

In Paraguay, corruption is even more deeply entrenched. The former regime of Alfredo Stroessner was reportedly involved with drug trafficking; former President Raúl Cubas was forced to resign thanks to a drug-related scandal, and in 2000, José Tomas Centurion, the then chief of the counternarcotics secretariat, was sentenced to seven years in prison for corruption¹⁷⁴. National corruption in the TBA and the country more broadly allows OCGs and terrorist groups to bribe public functionaries, buy services, and engage in criminal activities, some of which can overlap with legitimate economic activities. In addition, there have been recent reports of corrupt judiciary officials releasing PCC members from prison and corrupt policemen providing protection for the crime group in Paraguay. As mentioned previously, the 1994 AIMA bombing was traced back to the TBA and Iranian sponsorship¹⁷⁵.

Juan Marten very effectively describes the collusion of the corrupt Paraguayan army, navy, and national police in the border region of the TBA. While he provides details of the corruption and smuggling on the Paraguayan side of the border, he asserts that the same situation exists in Brazil, where, with the collusion of corrupt state officials, traffickers are able to move illicit goods using long-standing contacts and structures.

“In the operations to carry merchandise across the river, be that the Paraná (bordering with Brazil or Paraguay (bordering with Argentina)), the military commanders of the different units have developed a work scheme that allows them to accurately account for the volumes transported, since they should receive a certain amount for each box. In Saltos del Guairá the Paraguayan Navy River Policy had arranged for officers to conduct daily supervision of the quantity of goods shipped through Puerto Tigre or at Ground Zero, since they were to receive US\$ 1 for each box. Hence, they collect around 100,000 dollars a month in lean times (low demand). These cash-laden briefcases reach the navy’s coffers as far as the Command in Asunción In the dry border area, there are two exit points, where the army and the national police are responsible for control and authorization. [The journey via the checkpoints and border crossings] ... takes just over an hour [and], despite the high visibility of the transporter and the various police and military checkpoints, no-one checked the contents of the cargo, and the truck entered Brazilian territory without any setbacks whatsoever... This is the same route followed by those who bring stolen vehicles and any type of contraband from Brazil into Paraguay, and through which cigarettes as well as marijuana, arms, cocaine, and other illegally traded goods leave the country”¹⁷⁶.

Since 2017, a series of raids in the Lake Itaipu and Paraná River areas have demonstrated how widespread corruption facilitates smuggling in the TBA. The raids not only revealed the presence of at least 261 clandestine ports (170 on the Paraguayan side and 91 on the Brazilian shore) operating long-term in the region but also uncovered numerous large boats, trucks and other vehicles used for smuggling goods. In addition, several Paraguayan navy personnel were also discovered working in the illegal ports - sometimes located just meters away from the navy base¹⁷⁷. The authorities also seized a notebook during one raid that listed payments made to corrupt officials within the National Anti-Drug Secretariat, the Attorney General’s Office, the National Police, and the Paraguayan Navy¹⁷⁸. It is worth noting that the security forces of Paraguay and Brazil (and Argentina as well in the last two and a half years) have been cooperating to combat these illicit activities. To some extent, organized crime and terrorist activities seem to have been somewhat restricted in the TBA but by no means have they been eliminated. In fact, these efforts have been seriously hampered by endemic corruption within the police, other security forces and the criminal justice systems described here. In addition, factors such as inadequate training; the lack of equipment and qualified personnel; insufficient funding; inadequate law enforcement and penal codes; poor organization; human rights abuses; weak anti-money laundering laws and even weaker enforcement of the laws that exist; and secrecy provisions of banking laws (with the exception of Paraguay, where the problem has more to do with not reporting suspicious financial activity) all represent challenges that are intensified due to endemic corruption¹⁷⁹.

Money Laundering in the TBA as Facilitated by the Enabling Environment

Money laundering was first detected in the TBA 2011 and has flourished to the present. It is aided by special accounts for non-residents and other outdated financial mechanisms that facilitate crime. According to reports from the Brazilian authorities, the police reported that activities undertaken with the intent to launder money averaged \$11 billion in 2017. Ciudad del Este and Foz do Iguazú are the main centers for money laundering in the region. All three stages of money laundering: placement, layering and integration, can be found in the TBA. TBML is rampant thanks to the sheer quantity of trade passing through the region which facilitates the “misrepresentation of the price, quantity or quality of imports or exports, phantom shipments, and falsification of invoices”¹⁸⁰.

As mentioned previously, public corruption, human smuggling, and trafficking of drugs, weapons, and counterfeit goods are the primary sources of illicit funds. Money laundering methods include the use of banks, real estate, and financial asset markets; remittance networks; shell companies; phantom accounts; illegal gaming; informal financial networks; and the sale of cars, cattle, racehorses, artwork, and other luxury goods. Criminals also use foreign tax havens to launder illicit gains. Drug trafficking organizations are linked to black market money exchange operators. In large urban centers, laundering techniques often involve foreign bank accounts, shell companies, trade-based money laundering, and financial assets, while in rural areas, promissory notes and factoring operations are more common. Some high-priced goods in the TBA are paid for in U.S. dollars, and cross-border bulk cash smuggling is a concern. Large sums of U.S. dollars generated from licit and suspected illicit commercial activity are transported physically from Paraguay into Brazil. From there, the money can make its way to banking centers in the United States. Brazilian law enforcement information and other reporting suggest the PCC is making a push into money laundering and other less visible criminal enterprises. There are concerns the PCC is actively seeking illicit support at the municipal level.

Brazil's National Risk Assessment deems the TBA as "the region that most demands attention in terms of ML/TF"¹⁸¹. Both Argentina and Paraguay share this assessment. TBA is often linked to complex money laundering schemes connected to smuggling, embezzlement, and trafficking in narcotics and weapons. Regional money laundering networks use complex schemes and a wide variety of techniques to launder money and transfer and integrate assets into accounts in several countries abroad in Central and North America, Europe, the Middle East, and Asia. The use of hawala, as well as trade-based money laundering and fraud linked to international trade, to move money out of TBA countries has been frequently reported. This involves the use of international trade transactions to move funds between countries and to disguise the origin of illicit funds. TBA criminal organizations use a variety of methods to engage in trade-based money laundering, including 'ghost' or shell export/import companies, over-invoicing, under-invoicing goods, shipping non-existent goods, shipping through multiple countries, and manipulating shipping documents to conceal the true nature of transactions and justify high-value exchange transfers between countries. Fake imports are frequently used to take money out of Brazil, while fake exports are frequently used to move money in.

The use of both urban and rural real estate is a popular method of laundering money in the region. Criminal organisations use urban real estate to launder money by purchasing properties with illicit funds, using shell companies to buy and sell properties, and engaging in cash transactions to avoid detection. Recently, there have also been cases of criminal organizations using real estate to park their illicit funds, drugs, or weapons, thereby avoiding detection, and preserving the value of their assets. In terms of rural estates, the Brazilian Financial Intelligence Unit (COAF) reports a few cases in which local criminal groups acquire farms often paying only a part of the due price in white, with the remainder paid in black. This inadvertently keeps legal real estate purchase prices low. The farms are then used to engage in trade-based money laundering, using fake invoices and exporting ghost farm proceeds. Afterward the farm is sold at a regular market price, and the criminal group uses the difference in declared values to justify the monetary gains in their possession. The difference between the purchase and sale prices can be considered legitimate income, thereby effectively laundering illicit funds.

Information about how organized crime in the region is using crypto assets to launder and move money is still scarce. However, the use of crypto assets to launder and move money has become a global trend. According to Chainalysis, criminals laundered USD 8 billion in 2021, a staggering 30% increase compared to 2020¹⁸². The still underregulated market, perceived anonymity, ease of use, decentralized nature, tools such as mixing services, direct peer-to-peer and off-shore exchanges, and the facility to wash trade NFTs make crypto assets attractive to OCGs.

Interviews¹⁸³ suggest that interest in the use of crypto assets by the OCGs in the regions is growing. Recently, the Brazilian Federal Revenue Department seized a few pieces of mining hardware equipment that illegally crossed the border into Brazil. On the Paraguay side, Ciudad del Este became a crypto-currency mining heaven because of the low cost of electricity due to Itaipu's hydroelectric surplus. Crypto currency mining machines use a large amount of electricity, particularly to keep the hardware cool. In Ciudad del Este, there are more than 10, 000 mining hardware machines, mostly from China, and a new mining company is established each month¹⁸⁴. This might explain the growing presence of E-hawala groups in this region.

Ciudad del Este can generate between US\$ 14 and 15 billion in commercial cash transactions annually, which makes it the third largest center of illicit trade in the world behind Hong Kong and Miami. However, that figure may have decreased thanks to the increased surveillance by the Argentine and Brazilian Customs authorities ¹⁸⁵. The traditional status of the TBA as a source of cheap goods has been severely restricted thanks to new regulations issued by Argentina and Brazil. It was Brazil that implemented an integrated customs system to combat smuggling and trade between Ciudad del Este and Foz do Iguazú, which reportedly reduced customs offenses by 90 percent. However, according to the Federal Secretariat of Economy of Foz do Iguazú, it will take several years for the customs integration between Paraguay and Brazil to produce better results. In addition, there are elements, such as an entrenched culture of bribery (as discussed previously), the delay in equalizing the differences in the legislation, and the cultures of the customs agents of both countries. These elements all present challenges in combatting the illicit flows in the region ¹⁸⁶.

5. Assessments Of Local, National, Regional, And International Responses

Impact of illicit trade on good governance, public safety, rule of law, legitimate businesses, employment, long-term economic growth, the environment, and climate change

TBA illicit flows have been negatively impacting the region and beyond. As illicit activities move out of the TBA into different territories, they cause spill-over effects. Illicit flows undermine the rule of law, harm public health and safety, damage legitimate businesses, impede economic development, harm the environment, and bring unwanted social costs. Illegal flows carry responsibility, not just for enabling and supporting crimes but also for the resulting direct and indirect negative social and economic impacts that are left in the wake of criminal ventures. Consequently, assessments of illicit flows should also consider the “negative consequences flow”. Although the negative consequences of organized criminal activity have been amply documented, they have not yet been treated as a flow. This is an important step. Not only does treating negative consequences as a flow bring about the possibility of mapping the transnational consequences of illicit activities and understanding how they shift and change over time, but it also brings important knowledge to police and intelligence activities. The analysis of the flow of consequence can provide important insights into indicators, signatures, and trends of shifting illicit flows, and prove invaluable in neutralizing illegal networks, influencing neutral networks, and supporting friendly networks (more of this below).

As described previously, the TBA hub simultaneously functions as a source, passage, and endpoint for several illicit flows. The same can be said about the hub’s impact on issues such as good governance, public safety, the rule of law, legitimate businesses, employment, long-term economic growth, the environment, and climate change. Even though many different illicit flows converge by using the same routes and methods of transportation, their consequences have not been homogeneous across time or space.

Regional Impact

At the regional level, cities alongside the border regions in the states of Paraná and the south of Mato Grosso do Sul display higher school dropouts, violent crimes, possession of guns, and unemployment rates than both the national and state averages. These indicators clearly express the differences between border and non-border cities¹⁸⁷. They also suggest a correlation (if not causation) between proximity to the hub and the consequent negative impacts.

Although illicit trade flows cross the borders in all directions, their impact on local social dynamics differ, with Brazilian cities on the border with Paraguay being much more heavily impacted than those on the Brazilian-Argentine border. This seems to be primarily because of two factors. The first is the high standard of border control implemented by the Argentine police. In this region, the Argentine authorities are very active not only in terms of policing trans-border persons and goods but also when it comes to investigating and prosecuting crimes. Therefore, although illicit flows cross the region, big illegal markets and players have not yet settled on the Argentine side of the border region¹⁸⁸. Having said that, it is important to note that Argentina’s river border (the Paraguay River) is still vulnerable to illicit flows.

On the other hand, Brazilian cities bordering Paraguay display high crime rates and low-quality public services, weakening local commerce¹⁸⁹. Rates of drug possession, gun possession, murder, and robbery in these cities are higher than both the rest of the state and Brazil’s average rates for the same crimes. In all cases, criminality levels also have a direct correlation with both the type of border (dry or fluvial) and the existence or absence of connecting roads or bridges. All Brazilian cities bordering Paraguay report the persistent presence of organized crime groups, such as the PCC and CV. In terms of social impact, these cities also display extraordinarily high school dropout rates. There is concern about the increasing involvement of young people in illicit markets and the high consumption of drugs and alcohol due to unemployment. Consequently, their involvement in common crimes to finance and sustain personal drug consumption has also increased.

Another important social impact of TBA-linked illicit flows in the region is the worsening situation of the Guarani Indians living in the area. The Guarani are an itinerant group that have been steadily losing their land and means of subsistence. Thus, an increasing number of Guarani have been arrested, linked to smuggling and drug trafficking. There is also an increasing number of Guarani Indians in large cities where they can be found begging and/or in other precarious situations. The same can be said for indigenous community members and small farmers on the Paraguayan side. Mainly found in the north-eastern parts of the region, these groups are increasingly turning to illegal logging and planting marijuana to fight famine, poverty, and the general lack of opportunity.

Worsening socio-economic conditions also aggravate the nefarious problem of human trafficking in the region. All three countries are places of origin, transit, and destinations of trafficking for sexual and forced labor. The TBA cities and fishing boats are known destinations for sexual tourism. Sexual exploitation of Paraguayan children is particularly prevalent in border zones, such as the TBA. Organized crime in the region frequently recruits Paraguayan women as mules to carry drugs to Europe but also forces them into prostitution once they arrive at their destination. In terms of forced labour, local practices such as “*criadazgo*” in which children are used as labor in exchange for food and shelter and the use of Indian children to pay for debts of the families along the Chaco region of Paraguay are very common practices. Although there has been some improvement, Paraguay’s National Risk Assessment (2015) identified human trafficking as one of the most significant threats to Paraguay’s AML/CFT system.

Illicit flows also cause severe environmental degradation and have a significant impact on the environment and climate change. With the support of indigenous communities and small farmers, criminal groups are increasingly setting forest areas ablaze to clear space for marijuana plantations, engaging in illegal logging and building landing strips for drug planes¹⁹⁰. Several national parks and reserves in eastern Paraguay, in and along the TBA, have been severely affected and are facing environmental emergencies.

Impact Beyond the Region

Beyond this region, the impacts are also numerous, albeit difficult to quantify. In terms of public health, the illicit drug trade is clearly correlated to drug abuse and addiction along the entirety of its route. Drug abuse both strains and brings additional costs to the healthcare system. It also acts as catalysts for violent crimes, money laundering, and corruption. The large volume of smuggling and contraband flows also inundates legal markets with products that are manufactured below the minimum required standards of health and quality, once again endangering public health. Illicit goods are often of low quality or counterfeit and can contain harmful ingredients or be contaminated. Several reports and articles in all three countries describe cases of health problems associated with the integration of fake and illegal fertilizers, cigarettes, food supplements, and medicines within the legal markets. In many cases, such as cigarettes, the manufacturing of these products is also linked to environmental, human trafficking, and human rights issues.

Likewise, the smuggling of illicit goods and contraband flows have a significant economic impact on both the private and public sectors. In 2021, the loss of tax revenues in Brazil, with the 15 most smuggled goods alone, was estimated at 300.5 billion reais¹⁹¹. This loss of revenue substantially diminishes the resources available for the implementation of public policies at the city, state, and federal levels, impacting good governance. Illicit trade can also lead to a significant rise in public spending because of the need for increased spending on law enforcement and border security. These flows also greatly harm legitimate businesses, creating unfair competition, thereby affecting employment and long-term economic growth.

Illicit flows also bring corruption and money laundering trails. Both are not only key enablers of illicit flows, but also a necessary condition. They spawn across both private and public sectors. Corruption in the private sector creates a permissive environment that facilitates illicit trade, spreading to form an entire support and facilitation network for illicit flows. This network, underpinned by corruption, includes suppliers of precursors and raw materials, money launderers, accountants, legal and financial advisers, transport, and export companies, and so on. Private corruption harms the economy, undermines public trust, and threatens the health and safety of both individuals and communities.

Corruption in the public sector is thought to be especially prevalent in both the TBA and along illicit flow routes radiating from there. Interviews¹⁹² suggest a direct relationship between the transport of illicit goods and corruption. Organized criminal groups in the region have recently preferred to smuggle and move goods that are relatively smaller in volume and size but have high returns, such as mobile phones. On land routes, organized crime combines large-scale transport with “ant trade” techniques, i.e., the clandestine transport of an illicit good in a great number of consignments. We have seen this with marijuana trafficking in Paraguay. Illegal land transport generally prefers to travel very small distances at a time on a meandering route rather than traveling straight to the destination or covering long distances in a short time. This is a constantly reported trend: illicit flows are not continuous in their course, but rather discontinuous and fragmented into several small journeys along the route in a layering attempt to hide both the real origin of the flow as well as to avoid detection. There are reports that organized criminal groups complement this trend by establishing ‘safe storehouses and distribution centres’ along the land routes to store goods to be moved at a later stage. However, the sheer scale and volume of illicit goods moved throughout the hub every day are so large that they inevitably require equally extensive transportation logistics that simply cannot go fully unnoticed. Hence, corruption is essential to enable the transport of illicit goods and spreads to wherever illicit goods flow.

Other forms of crime and violence also spread along illicit trade routes as corruption takes hold. According to interviews¹⁹³, the small towns where organized crime takes hold to establish ‘safe storehouses and distribution centers’ become greatly impacted as organized criminal groups coerce the local population into illegal activities. Interviews¹⁹⁴ also claim that it is becoming increasingly difficult for criminal organisations to cross from Paraguay into Brazil with large groups of armed men openly carrying guns. Hence, when local OCGs transfer their illicit merchandise from Paraguay to Brazil, they no longer cross the border with armed protection convoys. Instead, these criminal organizations choose to enlist the assistance of corrupt policemen who are already stationed in Brazilian TBA to accompany the goods.

Corruption is also becoming an important enabler of illicit transportation via air routes. OCGs increasingly prefer to use air routes as they are faster, allow the transportation of larger volumes, and are less risky than land routes in Brazil. Deep-seated corruption at Ciudad del Este’s airports allegedly allows OCGs to move their goods in and out of Paraguay with ease.

It is important to note that corruption in the region and along the illicit routes does not exclusively take the form of willing bribery and influence peddling. Several interviews¹⁹⁵ mentioned that corruption is also being imposed through the violent coercion of local businessmen, authorities, and their respective families. This violent coercion into corruption resembles Pablo Escobar’s famous “lead or money” (*plata o plomo*) policy, i.e., the pressure to conform with criminal rules or be killed. To sum up, taken together, illicit trade linked to the TBA undermines good governance, worsens public safety, erodes the rule of law, brings losses to legitimate businesses, and increases unemployment, resulting in long-lasting negative economic and social impacts.

Local and international groups (governmental, intergovernmental, or private sector)

Local Groups

Several NGOs and local initiatives have addressed a variety of socioeconomic problems in the region. Their projects range from animal rights to work with children, from countering slave labour and unemployment to environmental issues related to the construction of the hydroelectric plant or the expanding crop cultivation in the region, just to name a few. Undoubtedly, these NGOs are important to locals and have contributed to addressing many issues caused or aggravated by illicit trade. However, their initiatives are mostly focused on specific local issues and, as such, have limited reach in terms of countering illicit trade in the hub due to its expansive and interconnected nature.

Another issue contributes to the limited reach of NGOs. Organized crime in the region takes advantage of NGO vulnerabilities and exploits both legitimate and non-legitimate NGOs as conduits for money laundering as well as for concealing and obscuring the diversion of funds intended for money laundering. This misuse has been well documented in money laundering typologies published by the Brazilian Financial Intelligence Unit (COAF). In particular, one of the typologies highlights the use of transborder religious, educational, and cultural institutions in both Brazil and Paraguay to launder money linked to weapons and illicit white smuggling, tax evasion, and drug trafficking to finance an undisclosed extremist group abroad¹⁹⁶.

Local private sector

In the private sector, most initiatives to counter illicit trade in the hub come from two groups. The first is associations or individual initiatives from private sector industries which are most affected by illicit trade. Examples include the cigarette and medical drug industries and initiatives such as the national forums against fake and illegal goods (FNCP - *Forum Nacional Contra a Pirataria*). These initiatives seem to be more active in Brazil and Argentina and aim to provide supporting material to facilitate government action against illicit markets, support public policies and police operations alongside borders, lobby for legislation, and promote public information campaigns. It is difficult to assess how effectively these actions contribute to countering illicit trade, but they certainly play an important role in raising awareness of the issue among legislators and the general public.

The second is the financial sector. The financial sector plays a major role as a starting point for investigations of corruption and money laundering. This is because the financial sector in each country is obliged to file suspicious transaction reports (SARS) whenever it detects an unusual transaction or behavior that might indicate the possibility of money laundering. These reports are then sent to the financial intelligence unit, from which a criminal or intelligence investigation can begin. As the financial intelligence units of all three countries classify the TBA area as a high-risk area, the financial sector has to be especially attentive to transactions and clients in the region and employ enhanced risk analysis and transaction monitoring or risk facing heavy penalties and even international sanctions.

However, as discussed below, the effectiveness of the private and governmental sectors' money laundering actions varies greatly across countries. Additionally, there have been high-profile cases of allegedly private corruption linked to TBA illicit trade. In these cases, professionals involved in countering money laundering became wilfully blind or complicit with organized crime, or the organized criminal group itself sets up financial institutions and services to launder its money. Some examples of high-profile cases include those of the Brazilian Bank, Paulista and the Paraguayan Bank, Banco Basa. Allegedly, these banks transferred proceeds from illicit trade in Paraguay into the Brazilian banking system and then remitted abroad to corresponding banks in a wide range of countries in North and Central America, Europe, the Middle East, and Asia. It is important to note that both private sector associations and financial sector initiatives have flagged the TBA as a point of attention rather than promoting a TBA-driven specific strategy.

Local governmental sector

Brazil has been increasingly investing in border security over the past few years. There is a clear effort to improve the Brazilian Federal Revenue Service ("Receita Federal") and Federal Police enforcement along Brazil's borders. Thus, despite the existence of a number of local independent regional monitoring and intelligence programs - such as the Federal Police Intelligence Centre (Centro de Inteligência da Polícia Federal), Frontera Tech, Comando Tripartite, Comando Bipartite, and VIGIA program - the Brazilian government created the Integrated Border Operations Centre (Centro Integrado de Operações na Fronteira - CIOF) ¹⁹⁷. Established in 2019, the center is a joint action task force and fusion center that pulls together expertise across multiple different agencies, such as the Federal Police, Federal Road Police, National Intelligence Agency, Ministry of Defence, Brazilian Financial Intelligence Unit (COAF), Brazilian Federal Revenue Service (Receita Federal), National Prisons Department, Secretary of Assets Recovery, and International Judicial Cooperation. The CIOF has three main activities: 1. Undertaking kinetic operations for command and control; and 2. Providing support to specialized police, and 3. Creating intelligence. The CIOF has cooperation agreements with Paraguay, Bolivia, Peru, and Colombia.

Argentina is moving towards implementing a similar initiative by establishing their own joint fusion center that will be connected to Brazil. Paraguay has implemented an automated migration system for facial recognition (SMARF). This tool registers the biometrics of those crossing the International Friendship Bridge (IFB) ¹⁹⁸. All three countries have enacted enforcement and intelligence operations, as well as money laundering investigations in the region and beyond, with varying degrees of efficiency.

International governments

Foreign international governments also have a presence in the region. The European Union funds a cooperation program against illicit transnational trade called the EUROFRONT. It encourages dialogue and information exchange between local national authorities managing the borders. It has a presence in all three countries ¹⁹⁹. The European Union is also present in the region through the EL PACCTO programme. EL PACCTO stands for the Europe-Latin America Assistance Program against Transnational Organized Crime. It is a cooperation program aimed at supporting the fight against transnational organized crime in Latin America addressing the entire criminal chain in three core areas: policing, justice, and prisons

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Likewise, the United States also finds it important to connect local law enforcement agencies from all three countries to American fusion centers. This takes the form of information-sharing and exchange. The USA has also promoted domestic litigation and the prosecution of entities and individuals allegedly linked to both Hezbollah and organized crime in the TBA region. It has also extensively targeted individuals and entities in the region through OFAC sanctions.

Since 2019, there has been increasing cooperation among countries in the region on matters related to international security. Two important initiatives are the 3+1 Regional Security Mechanism and the yearly Hemispheric Ministerial Counterterrorism Dialogue. Argentina, Brazil, Paraguay, and the United States form the 3+1 Mechanism which aims to promote coordination of efforts against transnational organised crime and the financing of terrorism in the TBA region. At the 3+1 forum, countries discuss strategies for detecting, identifying, and countering potential transnational criminal activities that could be exploited by terrorists.

Multinational organisations

Thus far, multinational organizations have had a limited impact on the region's illicit trade. Nevertheless, there are increasing initiatives of multinational organizations, such as the IMF, World Bank, FATF, and OECD, aimed at countering corruption and money laundering. These initiatives are slowly gaining momentum in all three countries and can potentially bring about a positive effect in the region. In this context, the FATF mutual evaluations of all three countries have discussed the situation in the TBA and have developed an important role in pushing for advances in the fight against money laundering and the financing of terrorism in the region. In terms of cooperation and law enforcement, the Interpol has coordinated several important operations in the TBA. In addition, the World Customs Organization has been present in the region, especially assisting Paraguay in improving its customs organizational management processes and monitoring mechanisms.

It is also worth mentioning that there are initiatives by multinational organizations in the region that, although not directly linked with tackling illicit trade, can greatly contribute to the fight against it. An example is the 2019 Joint Project between the Paraguayan government and the Food and Agriculture Organization of the United Nations. The Five-Year Poverty, Reforestation, Energy, and Climate Change (PROEZA) Project aims to provide more opportunities for rural communities to improve the lives of approximately 17,000 families living in areas vulnerable to climate change, including the Atlantic Forest. Initiatives such as these are important because they focus on vulnerable populations that have been targeted by organized criminal groups for involvement in activities such as illegal logging and marijuana cultivation.

Capacities of law enforcement and customs

In recent years, all three countries have developed border control capacity. However, law enforcement and customs agencies have chronic limitations in their human and material resources, which severely limit their capacity to effectively detect, seize, detain, and successfully criminally prosecute smuggled and illicit goods and perpetrators. Argentina has managed to maintain its capabilities to detect and seize smuggled goods at the federal level but still faces challenges on the northern and north-eastern borders, mainly along the frontier of the TBA.

In Brazil, the latest investments, coordination, and intelligence work have resulted in an increase in seized illegal goods. Nevertheless, the rise in seizures seems to have been followed by equal growth in the volume of illicit flows, especially drugs. As vigilance increases in the TBA region, the flows change their routes northward, and the nine major entry routes (ten, if we include the TBA) into Brazil now spread from Uruguay all the way up to Suriname. As Brazil has 16,996 km of porous land borders with 10 South American countries and has the 4th biggest road network in the world, it is nearly impossible to manage and equip law enforcement teams to cover all entry points and roads. Paraguay still has insufficient control over immigration, customs, and law enforcement along its borders, especially the TBA. There appear to be systemic structural deficiencies within the country. The case of marijuana plantations in forest areas is very telling. The International Union for Conservation of Nature (IUCN) states that the ideal number of park rangers is one for every 1,000 hectares. However, in Paraguay, there is just one park ranger for more than 38,000 hectares. Organized crime threats and coercion also play an important role in keeping these numbers low ²⁰¹. Several law enforcement agencies have reported that they are heavily underbudgeted, understaffed, undertrained, and underequipped. These limitations go beyond their capacity to detect and seize illicit goods. According to Mongabay, between 2004 and 2020, large amounts of marijuana have been destroyed and seized. However, judicial records during this period demonstrate that not a single person was found responsible or charged for illegal deforestation in the departments of Canindeyú, Caaguazú, Caazapá and Itapúa (Benítez, A., 22 July 2020).

The judiciary's involvement with illicit markets is a story frequently told. An InSight Crime report denounces Paraguayan judges in the TBA region who allegedly frequently impose sentences that are favorable, carry unduly light sentences, or suspend sentences in cases relating to drug traffic ²⁰². These claims have been repeated by other sources. Interviews ²⁰³ conducted by the authors with key authorities and stakeholders also revealed that widespread coercion and corruption significantly impact the capacity of law enforcement and customs to detect and seize smuggled goods and detain perpetrators in Paraguay. Corruption has been frequently reported as "endemic" or "structural" and as being a source of distrust hampering cooperation and information exchange between the three countries' enforcement agencies.

It is important to mention that alleged cases of corruption and coercion in customs, enforcement agencies and the judiciary have been reported in all three countries, not only in the TBA region, but all along their illicit flows' routes. However, all sources point to a significant difference in the scale and degree of coercion and institutionalised governmental corruption among the three countries, with Paraguay experiencing the highest levels of endemic corruption

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Recent assessments of the levels of implementation of the FATF Recommendations

Brazil and Argentina are members of the FATF and GAFILAT, whereas Paraguay is a member of the GAFILAT alone. Thus, all TBA countries have adopted the FATF's AML/CFTP standards with varying degrees of technical and effective compliance. Paraguay has been improving its money-laundering structure and is no longer considered a jurisdiction with strategic deficiency. However, it is still considered a country with increased risk and deficiencies in AML/FTP. Argentina has also addressed most deficiencies related to the core FATF recommendations and has recently been removed from the FATF enhanced and follow-up process. Brazil has also made progress in combating money laundering and terrorist financing, improving international cooperation and risk assessment, although some challenges persist.

Paraguay's AML/CFTP measures evaluated by the FATF highlight challenges in its AML structure and enforcement because of inadequate data for risk evaluation, deficiencies in sectors such as lawyers, accountants, and Virtual Asset Service Providers (VASPs), inefficient financial crime investigations, legal limitations, lack of sanctions on designated non-financial businesses, and a medium to high terrorism financing risk, as evidenced by limited terrorism-related court cases ²⁰⁵. Argentina's evaluation underscores insufficient coordination among domestic agencies and inconsistent requirements across financial sectors. Recommendations include addressing technical shortcomings in money laundering and financing of terrorism laws, enhancing freezing of terrorist-related assets, updating laws for AML/CFTP supervision, improving supervision of financial institutions, extending requirements to uncovered entities, providing more resources, and empowering coordination offices for more effective policies (FATF/OECD, 2014). Brazil's specific areas of weakness include the need for better coordination among authorities, as well as improving the prosecution of money laundering, particularly regarding environmental crimes and proceeds laundering. Brazil's financial sector is well supervised, but gaps still exist in overseeing the non-financial sectors. Enhancing asset recovery and beneficial ownership transparency, as well as advancing measures against terrorist financing, are all additional areas that require improvement to effectively mitigate risks ²⁰⁶.

TBA is a point of special attention in the FATF and GAFILAT evaluations of all three countries ²⁰⁷. According to the FATF, the TBA presents a complex landscape characterized by a convergence of multiple money laundering and terrorism financing risks. Within this region, third-party and professional ML activities thrive, fuelled by predicate crimes such as weapons and drug trafficking, human trafficking, smuggling, piracy, counterfeiting, duty evasion (such as cigarette smuggling), and tax evasion. These criminal activities have given rise to several ML typologies. Notable technical compliance deficiencies in AML in all three countries hinder the effectiveness of countermeasures. Additionally, the TBA's susceptibility to these risks also potentially serves as a high-risk zone for the financing of terrorism and the proliferation of weapons of mass destruction, further complicating the landscape of financial security in this complex area.

Appropriate policy responses at the local, national, regional, and international levels

The TBA is a complex hub of illicit trade. Several interconnected black markets originate, transit, or terminate there. Organized crime networks in the region are highly globalized and have the capacity to coordinate illegal activities on an international scale. In these networks, high rates of innovation in tactics, capabilities, and information sharing allow them to rapidly adapt to change, quickly countering state responses. Moreover, their networked, globalized structure encourages the outsourcing of criminality and increasingly interfaces with local markets and players. In critical areas, such as the TBA itself, the line between the white, grey, and black markets can be incredibly blurred. The current size of illegal markets is already enormous and expanding rapidly, arguably representing a third of global GDP by 2020 ²⁰⁸. This gives criminal networks the ability to amass considerable financial resources that not only rival state capabilities, but also grant them the capacity to co-opt and corrupt legal institutions.

These illicit networks are well-adapted and respond quickly to their environment. They do so by increasingly forming cells and groups that manage only a specific stage or function of the illicit flow supply chain but that are simultaneously connected to a larger network. The result is that OCGs are increasingly heterogeneous, encompassing a growing number of diverse actors, and thus becoming more fragmented and complex. Their structure also varies locally in order to better adapt to each stage of the flow: production, distribution, or consumption ²⁰⁹.

Various transnational illicit networks operate simultaneously in the TBA. Geographically, the hub concentrates the production, distribution, and consumption stages of several illicit flows. In addition, structural and institutional factors contribute to creating a crime-friendly environment. Illicit trade is very resilient in the region, and tackling it is a difficult task. It demands a focused intelligence gathering effort, patience, and a collaborative approach from various governmental organisations, as well as the participation of the private sector. To counter this threat, local, national, regional, and international policy responses must be aligned. They must also identify their key capabilities and needs, develop a variety of strategies to explore illicit network vulnerabilities, and disrupt their critical functions. This requires integrated response across a wide range of areas. There is plenty of truth in the cliché that networked threats require networked responses. Thus, the appropriate policy responses must coordinate local, national, regional, and international responses. Moreover, following the “attack the network” model ²¹⁰, public policy responses should support friendly networks; influence neutral networks and neutralize the criminal networks.

Support friendly networks

In terms of prevention, appropriate policy responses should aim to create an environment in which the cost of crime is high. In other words, police responses should aim to disrupt and increase risk within an illicit trade business model. One step in this direction is to increase the cost of criminal practices while also lowering the cultural acceptance of criminal practices. Hence, criminal policies should not only focus on crime but also on fostering private sector cooperation and civil society engagement. Therefore, it is important to create a culture of legality in which both companies and customers are socially conscious and demand social seals, ethical compliance, and certificates of origin for the products and services they provide, use, or buy. However, this is challenging and requires a long-term strategy (see Table 7).

Locally, civic campaigns can raise public awareness of the dangers and consequences of illicit trade, and the importance of acting against it. Awareness campaigns, community engagement, and public education initiatives aimed at civil society and entities such as NGOs can play important roles in creating a general culture of integrity, help prevent involvement in illicit trade, and reduce the demand for illegal goods and services. Interviews on the ground demonstrate that the mindset of accepting certain crimes as “minor and acceptable” acts as an important enabler of illicit trade, especially regarding illegal whites. It is important to create a hostile environment for criminal networks to operate.

Building partnerships between civil society organizations and government agencies can also help prevent the involvement of civil society in illicit trade. Collaboration can help identify and address the root causes of illicit trade and strengthen the capacity of civil society organizations to detect and report suspicious activities. Policy responses should connect to local communities and NGOs to address local crime recruitment push and pull factors such as social exclusion and unemployment. Therefore, vulnerable individuals must be protected, and crime victims should receive proper compensation. Providing alternative livelihoods to vulnerable communities, by promoting legal trade and job creation in affected communities for example, can help prevent their involvement in illicit commerce. Public policies and private initiatives can promote legal economic activities as well as support the development of sustainable livelihoods. In addition, affected and vulnerable communities should be given a voice. Community outreach programs can provide resources for education and job training and build relationships between law enforcement and community leaders. This relationship can reduce the appeal of criminal organizations and help prevent future recruitment.

Initiatives should also aim to counter and challenge the narratives and ideologies that legitimize OCG’s actions. In this sense, awareness campaigns should also consider the negative consequences of illicit trade. In some cases, the consequences of illicit trade have been shown to be extremely harmful and damaging to the local population, especially when there is territorialization of organized crime. Exposing the contrast between the conditions of the local population and those of crime bosses can be a tool for awareness. This can contribute to efforts to combat illicit trade and to build more resilient and sustainable communities.

Training key NGOs, leaders, companies, and civil society is equally important. Civil society and the private sector play a key role in helping to detect organized crime activities. For example, the private sector can be an important source of intelligence for investigating corruption and money laundering. In all three countries, financial institutions and those associated with their businesses have an obligation to file suspicious transactions to authorities. Suspicious transaction reports (SARs) are important tools for identifying and reporting suspicious transactions to authorities. Proper screening and quality SARs can also greatly help prevent money laundering and improve further investigations, especially in vulnerable areas such as the TBA. Training can also help decrease vulnerability to other practices prevalent in the region: OCG misuse and abuse of legitimate small businesses and NGOs without their knowledge.

At the national level, it is important that the federal government prioritizes implementing top-down actions to promote integrity governance practices within public institutions and local economies. These actions should aim to improve dialogue between government officials, the local population, and the private sector. Regulations and systems should foster the rule of law, transparency, equity, inclusiveness, and accountability in order to strengthen public and private institutions against the penetration of organized crime. Federal public policies should promote sustainable development, addressing drivers of recruitment into organised crime while at the same time reinforcing the human and material capabilities of the institutions involved in the fight against illicit markets. The lack of human and material resources in the police and border control forces was a recurring theme in the interviews²¹¹ in all three countries.

Internationally, the foreign private sector and governments can help drive both public and private institutions to reform their practices and increase their resilience against organized crime. Regulations and practices that make companies account for the integrity of their entire supply chain can lead international markets that conduct business with companies located in the TBA to demand from the latter certificates of origin/destination of the products, proof of anti-money laundering, and anti-corruption good practices.

Strengthening law enforcement cooperation is also an important step. It is essential to improve direct cooperation between TBA countries. Efficient law enforcement requires coordination and agility. Criminal networks are extremely dynamic and have a strong capacity for regeneration. Although cooperation among the three countries has been improving with the increasing dialogue and trilateral forum, interviewed²¹² officers from Brazil and Argentina frequently complained about both the excessive and slow bureaucracy as well as the differences between the national procedures in transborder investigative, administrative, and judicial procedures. In several interviews, government officials claimed to have often used “personal and informal relations to get things going”²¹³. Mutual suspicion of corruption also hinders cooperation. Thus, it is important to adopt concerted measures to simplify the trans-border investigative, judicial, and administrative procedures. This includes improving the existing legal frameworks to further facilitate cooperation between intelligence and police forces in the TBA countries. Additionally, increasing information sharing and promoting trans-border dialogue to adopt common or more similar protocols, as well as engaging in a legislative effort to align the relevant legislation of all three countries, would greatly contribute to supporting crime-fighting networks in the region.

It is imperative to improve cooperation not only between the intelligence and police forces of the three TBA countries but also between those countries where the illicit flows originate, transit, or end. Increasing international cooperation among law enforcement agencies can help identify and target the cross-border activities of criminal networks and disrupt their ability to operate across multiple jurisdictions. Enhancing cross-border cooperation between law enforcement agencies can take several forms.

Improving the capacity of customs officials to detect and seize illicit trade shipments at ports, airports, and border crossings, as well as increasing the use of technology, could enhance and modernize customs controls. TBA states can create a consortium and public/private partnerships to collaborate in the development and deployment of technology to enhance intelligence and police operations. This includes sharing information on new technologies and working together in research and development.

Another way to improve the already existing cooperation is to boost communication channels between intelligence and police forces in different countries using secure communication channels, such as encrypted messaging systems, to share information and intelligence. This can boost the exchange of information and intelligence. Intelligence on emerging threats, trends, and new developments in the region and beyond should be regularly shared. This can be complemented by organising regular joint training programs for intelligence, and police forces of the TBA which can help improve their skills and knowledge, build trust, and enhance their ability to work together more effectively.

Table 7: Support Friendly Networks

		Illicit Production	Illicit Transit	Illicit Consumption	Illicit Trade Enabling and Facilitation
Support Friendly Networks	Create culture of integrity				✓
	Raise awareness and education			✓	✓
	Prevent civil society involvement	✓	✓	✓	✓
	build partnerships with civil society	✓	✓	✓	✓
	Sustainable development and alternative livelihoods	✓			✓
	International cooperation and information sharing	✓	✓	✓	✓
	Technology and customs improvement	✓	✓		✓
	National-level integrity governance				✓

Influence neutral networks (Enablers)

Creating a culture of integrity is essential to fostering the resilience of government officials and private sector individuals against innocent and unwitting support for illicit trade. However, it is important to also monitor and implement active policies to influence neutral networks, that is, those who are vulnerable to helping criminal organizations by being wilfully blind, corrupted, or even potentially becoming complicit in criminal practices. As criminal networks operating in the TBA are increasingly fragmenting the supply chain worldwide, they depend on a growing number of diverse smaller networks specialized in specific stages or functions. Hence, illicit networks subcontract a diverse number of supporting and enabling actors, including lawyers, accountants, legal and financial advisors, financiers, transportation providers, registries, real state agencies, and logistics providers. Frequently, these networks provide services to several organized crime groups, and their specialized knowledge can be critical for the continuity of illicit trade and difficult to substitute. Additionally, increasingly specialized small local networks and service providers are becoming more robust and amassing capabilities to become independent illicit networks ²¹⁴. Thus, key professional enablers are high-value targets for both the prevention and fight against illicit trade. Appropriate policy responses should, therefore, act to increase the cost of neutral or vulnerable individuals being corrupted into becoming criminal officials, insiders, or money launderers (see Table 8).

An example of a specialized neutral network that has been key to enabling illegal trade are the internet marketplace companies, which do not undertake proper control mechanisms. The rise of e-commerce has made it easier to trade illicit goods online. Dark web marketplaces, social media platforms, and other online forums have become popular channels for the sale of illicit goods such as counterfeit products, drugs, and weapons. Beyond the TBA, marketplaces play a significant role in illicit trade, not only by connecting buyers and sellers but also by lending a veil of legitimacy to illegal whites.

Regulators should demand that marketplaces adopt strategies to combat illicit trade. There should also be an international code of conduct for online marketplaces. Several strategies are possible for preventing fraudulent sellers from using the platform to engage in illicit activities. These include adopting a strict screening process for sellers and verifying their identity, business registration, origin of the products sold, and other relevant details. It is also important to monitor product listings through automated systems that scan listings for keywords, images, or other indicators of prohibited products to identify illegal or prohibited items. Reputation systems that allow users to rate and review sellers and products can help to identify bad actors and discourage illicit trade. Reporting mechanisms should be easily available to report illegal or suspicious activities on the platform, such as the sale of counterfeit goods or stolen merchandise. Online marketplaces should have teams that investigate these reports and work closely with law enforcement agencies to identify and prosecute sellers engaged in illicit trade. This can involve sharing data and information regarding suspicious activities on the platform. In addition, users should be educated about the risks of illicit trade and the importance of reporting suspicious activity.

The local cash-intensive economy of the TBA, the nature of small businesses, and the free-trade zone certainly represent an environment that facilitates money laundering activities. Local businesses are often vulnerable to money laundering or other forms of crime because of their reliance on cash transactions and their limited financial infrastructure. Public policies and partnerships with financial institutions and fintech companies could increase financial inclusion by providing access to formal financial services, such as bank accounts, mobile banking, and digital payments, to help reduce reliance on cash transactions. This could include the development of alternative payment systems that are more secure and transparent to help reduce cash use. Finally, promoting financial education for individuals and small businesses can help them understand the risks of money laundering and the benefits of formal financial services.

In terms of more regulated business in the TBA, compliance regulations and effective enforcement mechanisms can deter civil society from engaging in illicit trade. The private sector can unwittingly become involved in illicit trade through their supply chains, customer bases, or employees. Regulations demanding that companies conduct due diligence on their suppliers and customers can ensure that they are not unwittingly involved in illicit trade. Due diligence procedures should include conducting background checks, verifying licences, and permits, and monitoring transactions for suspicious activities in all supply and upsell chains. Due diligence should be accompanied by supply chain security measures that prevent the entry of illicit goods into their supply chains, such as using tamper-evident packaging, conducting inspections, and implementing tracking and monitoring systems.

Regulations can also require that companies develop and implement anti-illicit trade policies and training. These policies can include guidelines for staff, procedures for identifying and reporting suspicious activity, and measures to address violations of company policies. Companies should provide training to their employees on the risks and impacts of illicit trade, how to identify and report suspicious activities, and how to avoid unwitting involvement in illicit trade. Moreover, government agencies and companies should collaborate with each other to exchange information and stay informed about the latest threats, modus operandi, and trends in illicit trade to help them identify and respond to suspicious activities.

Another important neutral network is that of the former members of OCGs. It is important to adopt public policies to provide a way out for OCG members and improve the current prison programs of rehabilitation, upskilling, and reintegration. This is a critical aspect in the TBA countries as not only does the prison system remain overcrowded, severely underfunded, and with poor conditions, but also illicit groups control crime both inside and outside the prison system straight from their cells. Deadly prison riots and attacks on rival gangs inside penal institutions are common in Brazil and Paraguay. While this modus operandi has been long present in Brazil, with the internationalization of PCC, it is increasingly expanding to prisons in other countries, such as Paraguay. As OCGs establish a complex system of control over inmates, staff, and resources using corruption, violence, and intimidation, prison systems become a fertile ground for the growth of organized crime as opposed to rehabilitation. Of course, improving prison conditions is a complex and challenging task and the Brazilian and Paraguayan governments have struggled to contain the influence of OCGs inside prisons. Several policy responses are required. The TBA countries' prison systems require funding for making improvements in infrastructure, staffing, and training. The implementation of alternatives to incarceration, such as community service or electronic monitoring for low-risk offenders and increasing access to parole for eligible inmates can also contribute to reducing overcrowding in prisons. Improving the conditions for prison staff, including better training, higher pay, and improved safety measures, can help reduce the likelihood of corruption and improve inmates' overall quality of life. Implementing programs for education and job training, as well as mental health and drug addiction treatment, can help reduce recidivism rates and improve the chances of successful reintegration into society. Addressing corruption and holding those responsible accountable can also improve the overall functioning of the justice system and lead to better prison conditions. Finally, it is equally important to have sound programs for victims and witness protection.

Table 8: Influence Neutral Networks

		Illicit Production	Illicit Transit	Illicit Consumption	Illicit Trade Enabling and Facilitation
Influence Neutral Networks	Regulate internet marketplaces			✓	✓
	Business compliance regulations	✓	✓		✓
	Rehabilitation and reintegration of OCG members				✓
	Victims and witnesses' protection				✓
	Supply chain security measures and anti-illicit trade policies	✓	✓		✓

Neutralize criminal networks

Appropriate policy responses should consider the chronic scarcity of the human and material resources of the TBA countries' enforcement agencies. The government should adopt intelligence-driven management and actions to neutralize criminal networks by targeting high-value targets (HVT). Thus, resources should be employed to compromise or remove selected critical targets that can cause significant damage or disruption to the network's ability to function, as intended. These are targets that have significant importance or value and whose loss or disruption can have a substantial impact on the network's overall function or performance (see Table 9).

High-value targets are not just leaders of organized crime rings. Other high-value targets include facilitators, resources, transport, freedom of movement, service providers, and corruption. However, other high-value targets are less obvious and thus generally not addressed, such as illegal services or goods branding, OCG marketing, the group's internal cohesion, root causes of recruiting and entering crime, group narratives, as well as the root causes creating demand for illicit goods and services.

Thus, the response to illicit networks must be integrated at all levels. It demands local, regional, national, and international components, as the TBA illicit networks and flows do not operate solely in the TBA regions or countries. Following this logic, the integrated responses should target OCG formation and maintenance conditions, erode the enabling environment, increase costs associated with criminal activities, and restrict freedom of movement ²¹⁵.

Strategies targeting high-value targets include identifying, arresting, extraditing, and isolating key leaders, critical service providers, and organizers to disrupt the criminal network's hierarchy and weaken their ability to coordinate criminal activities. It is also important to de-capitalise criminal networks by both seizing their assets and profits, as well as targeting illicit financial flows. It is also important to implement FATF-compliant standards and systems to improve financial intelligence and map the real beneficial ownership of legal persons, as TBA OCGs frequently use intricate webs of urban and rural real estate and companies with unclear ownership to launder their money. In addition to strengthening financial intelligence gathering and analysis, the national and international sanctioning of individuals and entities involved in illicit trade can be a powerful tool, as illegal networks operate globally. The targeting of network logistics and infrastructure can be aimed at transportation routes, communication channels, and safe houses. Supply chains on which criminal networks rely can also be disrupted by targeting production facilities, smuggling routes, etc.

Precursors that are needed to produce illegal products and do not have a substitute are examples of high-value supply chain targets. One strategy to prevent the diversion of precursors is to regulate their production, importation, and distribution. This can be achieved through licensing and registration requirements, record-keeping and reporting obligations, and strict controls on the quantities of precursors that can be sold or purchased. However, it is important to note that many key precursors are already regulated but are still diverted and converted into illicit trade supply chains. Therefore, it is necessary to improve the monitoring and inspection of the entire supply chain of precursors to detect suspicious activities. Obviously, this requires efforts beyond the TBA. International cooperation is essential for information sharing, to conduct inspections and joint investigations of precursor production facilities, transport, and storage facilities, as well as to track their movement through the supply chain using digital tracking technologies. Additionally, educating public and industry stakeholders about the risks and consequences of precursor diversion can also be effective in preventing their use in illicit trades. Public awareness campaigns, training programs for industry workers, and educational materials for students and the general public can increase awareness of the risks associated with precursor diversion and prevent individuals from inadvertently or intentionally contributing to their illicit use.

As a recent phenomenon in Latin America, various criminal networks no longer control the entire supply chain of illicit trade, such as cocaine. These groups have greatly expanded their reach and scale but have become vulnerable by increasingly depending on partnerships with other criminal networks. Cooperation between OCGs tends to be shallow, dynamic, and unstable. Thus, it is essential to engage in intelligence gathering to understand and map the structure, activities, and especially, relationships and links between different criminal networks to identify vulnerabilities and opportunities for disruption. Targeting specialized criminal networks and individuals involved in alliances can seriously disrupt their operations and weaken their associations as a whole. Asset forfeiture can also be used to seize the assets of criminal organizations and individuals involved in alliances, making it more difficult for them to operate and expand their criminal activities. Another way to target OCG alliances is to understand and exploit the rivalry between groups. Recent interviews ²¹⁶ speak not only about the expansion of the PCC pushing other groups out of the borders, but also the growing presence of Chinese criminal networks linked to illicit cigarettes and e-hawala in direct competition with other criminal groups in the region.

Other high-value targets include group narrative and branding. Targeting criminal-organised crime branding and narratives can undermine their reputation and ability to operate, attract new members, and instil fear in their rivals. Initiatives such as exposing their criminal activities and highlighting the negative impact they have on society through media campaigns, public statements, and targeted messaging of potential recruits can have an impact on these groups. These campaigns should also challenge the narratives of the TBA OCGs, which often portray themselves as “good criminals” who protect their communities from outside threats and provide essential services that the government does not.

Table 9: Neutralize Criminal Networks

		Illicit Production	Illicit Transit	Illicit Consumption	Illicit Trade Enabling and Facilitation
Neutralise Criminal Networks	Intelligence-driven management and response	✓	✓	✓	✓
	Identify, target and disrupt high-value targets	✓	✓	✓	✓
	De-capitalize criminal networks	✓	✓		✓
	Implement FATF-compliant standards	✓			✓
	Smart-sanctions against individuals and entities	✓	✓		✓
	Regulate precursors and enhance monitoring	✓			✓
	Target criminal group narratives and branding	✓		✓	✓
	Gather intelligence about criminal alliances and activities	✓	✓		✓
	Local, regional, national, and international integrated responses	✓	✓		✓
	International cooperation on information sharing, inspections and joint investigations	✓	✓		✓

New technologies and digital-based policy responses

New technologies and digital-based policy responses have significant potential for improving how illicit trade is addressed in the hub. TBA countries have invested in technology to counter illicit trade along borders. Examples of recent investments include the Brazilian and Argentinian use of Israeli drones in border regions and Paraguay’s automated migration system for facial recognition (SMARF) used to register the biometrics of people crossing the International Friendship Bridge. In Brazil, the Joint Borders Operation Centre (CIOF) uses satellites, cameras, sensors, and drones to monitor border regions ²¹⁷. However, the implementation of technological solutions has been hampered by the high implementation and maintenance costs. Brazil, for example, interrupted the “*olho vivo*” (“live eye”) camera monitoring systems due to its high maintenance cost ²¹⁸.

Nevertheless, technological solutions have great potential to address illicit trade in the hub and even significantly reduce the costs associated with fighting it. Technology is a great ally for monitoring the transport of illicit goods. The convergence of transportation methods for several illicit goods produces indicators and signatures which technological tools can help detect and monitor. For example, the rising use of air transport is a trend in illicit flows in the TBA. The aircrafts used to perform illicit transport vary from helicopters and small one-engine planes to private jets with up to 3 tons of cargo capacity. These aircraft are often retrofitted and heavily modified to fly longer distances or increase cargo capacity. In many cases, these modifications create structural vulnerabilities in aircrafts. Frequently, these planes also fly with little fuel to accommodate more cargo. Consequently, illicit flights usually leave a signature because their flight plan requires more refueling stops. Crashes are also common. OCGs also run clandestine airplane factories to adapt stolen or purchased aircraft. Monitoring purchased and stolen helicopters and small planes as well as tracing and following the sales of plane parts can help identify this part of the illicit supply chain. The same can be said of landing and refueling sites ²¹⁹.

Authorities can use several technological solutions to track and detect illegal transportation. Smart surveillance systems can be used to detect aircraft movement in real time and monitor whether an aircraft enters restricted airspace or flies below the radar level. Satellite imagery can be used to detect illegal flights, particularly in remote areas. The imagery can identify aircrafts, track their movements, and help uncover landing and refueling points. Flight tracking software can also be used to monitor and track aircraft movement by providing real-time updates on the location and altitude of an aircraft. Air traffic control systems can track and monitor aircraft movement within a designated airspace and alert the authorities to unauthorized flights. Drones can also be used to detect illegal flights by capturing images and videos of the aircraft and provide real-time updates on their location and movements. Ground-based surveillance can also be used to monitor aircraft movement. These can include CCTV cameras at airports, radar stations, and other key locations.

In waterways, radar and sonar systems can be used to detect vessels in real-time and identify their location, speed, and direction of movement. An Automatic Identification System (AIS) is a tracking system used by ships and vessels to broadcast their location and other information to nearby vessels and coastal stations. Authorities can monitor AIS signals to track vessel movement and detect suspicious activities. Patrol vessels and aircrafts can be used to monitor waterways and identify suspicious activities, such as vessels operating without lights, transponders, or vessels operating in restricted areas. Video surveillance cameras can be installed at strategic locations along the TBA's waterways to monitor vessel movement and detect unusual activities. Integrated border control checkpoints can also be established at key locations along waterways to inspect vessels and their cargoes. These checkpoints can also serve as deterrents for illegal activities.

Smart cameras can be used to monitor roadways in real-time and identify suspicious activities or indicators. For example, a common practice in the TBA's illegal truck transport is that the truck constantly and quickly changes freight trailers to make it harder to track the original cargo. In this process, it is common for trucks to drive without automatic tire inflation systems, as they take time to load. With smart cameras, it is possible not only to detect trucks driving without the system, but also to detect trucks that change freight trailers at an unusual frequency. These systems can also be used to detect and track vehicles based on license plate numbers. This technology can be used to identify vehicles involved in criminal activities, but also to help investigations and intelligence gathering by tracking their movements throughout the TBA countries. Mobile surveillance units can also be deployed to monitor roadways and detect suspicious activities. These units can include video cameras, automated license plate recognition (LPR) systems, and other technologies and can be employed alongside more traditional methods, such as roadside checkpoints and canine units.

Technology can also significantly enhance and reduce the cost of customs monitoring. Screening technologies such as X-ray scanners and chemical detectors can help detect illicit goods. Chemical camouflage to conceal cocaine and cocaine hydrochloride is becoming increasingly sophisticated and widely used. Thus, advanced screening technologies capable of detecting chemical camouflage are becoming more important, as it is increasingly difficult to detect this type of obfuscation through container imagery. Artificial intelligence-powered databases and software can analyze data on past shipments, routes, and types of goods being transported to identify high-risk cargoes. The efficiency of AI software can also be enhanced by implementing advanced cargo information programs in which importers and exporters file in advance cargo information and details, such as the type of goods, weight, and origin. Digital technologies such as blockchain can be used to improve the traceability of goods, making it more difficult for illicit trade to occur undetected. For example, blockchain can be used to create a secure and transparent record of a product's journey from production to sale, thus making it easier to verify its authenticity and provenance. Combined, technological solutions can extend beyond the traditional approach of consulting blacklist-based static databases of known criminals. Cross-chain analytics can create monitoring systems that dynamically recognize patterns, indicators, and signatures for red flagging, which may be indicative of illicit trade or money laundering.

One problem with the use of automated detection systems and other disruptive technologies is the human factor. Corruption is an important illicit trade enabler. Complicit authorities can circumvent the use of technologies simply by not using them. Thus, it is important to use new technologies to create and record automated procedures in customs, transportation nodes, etc, with clear attribution rules and audit trails. Advanced digital identity verification technologies such as biometrics and facial recognition can help ensure that individuals engaging in clearance procedures record their actions and who they claim to be.

Digital technologies and digital-based policy responses have the potential to address this illicit trade in the TBA hub. Trustworthy and anonymous whistle-blower platforms can be a channel through which employees and individuals can report suspected illicit acts such as corruption without fear of retaliation. Government-backed advanced digital identity verification technologies can help certify identities in financial and digital transactions as well as help prevent identity theft and other forms of fraud. Cross-chain analytics systems enable cross-chain tracing of sources, movements, and verification of the destination of virtual assets across blockchains. It can also help attribute ownership to said crypto assets, helping to prevent the misuse of crypto assets. Digital technologies such as artificial intelligence and machine learning can also be used to improve the detection of illicit trade activities, such as the detection of counterfeit goods or the identification of suspicious financial transactions. Digital technologies can also facilitate the sharing of information between law enforcement agencies, customs officials, and other stakeholders from all countries involved, making it easier to identify and disrupt illicit trade networks. Technologies such as blockchain can empower consumers to make informed purchasing decisions by providing information about the authenticity of products or by enabling them to report suspected illicit trade activities. Digital technologies can also help support the development of alternative livelihoods for vulnerable communities by providing technical and knowledge support, and digital skills.

However, it is important to note that new technologies and digital-based policy responses must be implemented in a responsible and transparent manner. It is crucial to carefully consider the potential risks and unintended consequences of these approaches, such as de-risking and digital exclusion, to ensure that they are implemented in a socially responsible manner.

Box 5: TBA Criminal Groups and the use of technology: The Case of E-Hawala

OCGs are also very tech savvy. They have the capacity and resources to invest and have increasingly been using technology to their advantage. They use technology in a myriad of ways to improve their operations and even to engage in money laundering and cybercrime. According to interviews ²²⁰, Paraguay is also increasingly appealing to cybercriminals from around the world because of its affordable commercial electricity rates and ease of acquiring mining and hacking hardware, making it an attractive base for their operations.

One interesting phenomenon related to the use of technology in the TBA is the use of e-hawala. Recently, Chinese organised groups have been taking up the space of traditional hawala operators in the region. Taking advantage of the general lack of regulation, E-hawala, also known as electronic hawala, is an illegal money transfer system that uses virtual assets to transfer money between individuals or organizations in different countries. e-hawala is often used to facilitate illicit trade, money laundering and sanctions evasion in the region.

Thus, it is important to discuss and implement a e-hawala digital-based policy response. One effective way to combat e-hawala is to strengthen regulations and increase the AML-FT regulatory requirements of financial institutions, wallets, and exchanges. This should include implementing robust monitoring of electronic financial transactions. Law enforcement agencies and financial intelligence units should be given the necessary resources and training to investigate and prosecute individuals and organizations involved in e-hawala. This includes the need to increase cross-border cooperation between law enforcement agencies to disrupt e-hawala networks.

In terms of the public, promoting financial inclusion through the expansion of formal financial services, such as microfinance institutions and mobile banking, could help reduce the demand for e-hawala. Reducing the cost of remittance transfers or increasing the convenience of using formal channels could encourage the use of formal remittance channels, such as banks and money transfer operators. This demand could also be reduced by raising public awareness of the dangers of e-hawala and the potential legal consequences for those involved in its use. Finally, collaborating with financial technology companies, can help the development of innovative solutions to prevent, detect and fight e-hawala.

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