No Ordinary Counterfeit

Alarming sofisticated imitations of American currency have turned up all over the world. And the false-paper trail leads to North Korea.

By Stephen Mihm

On Oct. 2, 2004, the container ship Ever Unique, sailing under a Panamanian flag from Yantai, China, berthed in the Port of Newark. As cranes unloaded the vessel's shipping containers, which were filled with a variety of commercial goods, dockworkers singled out a container and placed it aboard a flatbed truck, which was driven to a warehouse a few miles away. There, F.B.I. and Secret Service agents, acting as part of a sting operation, gathered around the container and cracked it open. Beneath cardboard boxes containing plastic toys, they found counterfeit $100 bills worth more than $300,000, secreted in false-bottomed compartments.

The counterfeits were nearly flawless. They featured the same high-tech color-shifting ink as genuine American bills and were printed on paper with the

Photographs by Tony Law. Trying to find the flaws, if any, in an enlargement of a “supernote.”
same precise composition of fibers. The engraved images were, if anything, finer than those produced by the United States Bureau of Engraving and Printing. Only when subjected to sophisticated forensic analysis could the bills be confirmed as imitations.

Counterfeits of this superior sort — known as supernotes — had been detected by law-enforcement officials before, elsewhere in the world, but the Newark shipment marked their first known appearance in the United States, at least in such large quantities. Federal agents soon seized more shipments. Three million dollars’ worth arrived on another ship in Newark two months later; and supernotes began showing up on the West Coast too, starting with a shipment of $700,000 that arrived by boat in Long Beach, Calif., in May 2005, sealed in plastic packages and wrapped mummy-style in bolts of cloth.

In the weeks and months that followed, federal investigators rounded up a handful of counterfeiting suspects in a series of operations code-named Royal Charm and Smoking Dragon. This past August, in the wake of the arrests, Justice Department officials unsealed indictments in New Jersey and California that revealed that the counterfeits were purchased and then seized as part of an operation that ensnared several individuals accused of being smugglers and arms traffickers, some of whom were suspected of having connections to international crime rings based in Southeast Asia.

The arrests also prompted a more momentous accusation. After the indictments were released, U.S. government and law-enforcement officials began to say in public something that they had long said in private: the counterfeits were being manufactured not by small-time crooks or even sophisticated criminal cartels but by the government of North Korea. “The North Koreans have denied that they are engaged in the distribution and manufacture of counterfeits, but the evidence is overwhelming that they are,” Daniel Glaser, deputy assistant secretary for terrorist financing and financial crimes in the Treasury Department, told me recently. “There’s no question of North Korea’s involvement.”

Last September, the Treasury Department took action to signal its displeasure. The department announced that it was designating Banco Delta Asia, a bank in Macao with close ties to North Korea, a “primary money-laundering concern,” a declaration that ultimately led to the shutting down of the bank and the freezing of several key overseas accounts belonging to members of North Korea’s ruling elite. In a public statement, Treasury officials accused Banco Delta Asia of facilitating North Korea’s illicit activities by, among other things, accepting “large deposits of cash” from North Korea, “including counterfeit U.S. currency, and agreeing to place that currency into circulation.”

The counterfeiting of American currency by North Korea might seem, to some, to be a minor provocation by that country’s standards. North Korea, after all, has exported missile technology in blatant disregard of international norms; engaged in a decades-long campaign of kidnapping citizens of other countries; abandoned pledges not to pursue nuclear weapons; and most recently, on July 4, launched ballistic missiles in defiance of warnings from several countries, including the United States.

But several current and former Bush administration officials whom I spoke with several months ago maintain that the counterfeiting is in important ways a comparable outrage. Michael Green, a former point man for Asia on the National Security Council, told me that in the past, counterfeiting has been seen as an “act of war.” A current senior administration official, who was granted anonymity because of the sensitivity of relations between the United States and North Korea, agreed that the counterfeiting could be construed by some as a hostile act against another nation under international law and added that the counterfeits, by creating mistrust in the American currency, posed a “threat to the American people.”

Whether counterfeiting constitutes an economic threat, the issue of North Korean counterfeiting is aggravating diplomatic relations between the two countries. According to some analysts, the freezing of North Korea’s bank accounts helps explain the regime’s decision to launch its missiles on July 4. Bill Richardson, the governor of New Mexico and a former U.S. ambassador to the United Nations, visited North Korea last fall, not long after the Treasury Department’s crackdown. When I spoke with him in mid-July, he said that the missile launch was in part a protest of the department’s actions. “When I was in Pyongyang in October,” he said, “my interlocutor raised the counterfeiting issue and the freezing of the assets as a major irritant for the government.” He continued, “The counterfeiting issue, and the crackdown on Banco Delta Asia, is a major factor which is contributing to Kim Jong Il’s posturing.”

How much of a concern should the counterfeiting be? Is it worth adding the issue to an already volatile diplomatic situation? The current South Korean government, which has made de-tenue with North Korea a centerpiece of its foreign policy, has shied away from an open confrontation with the regime over the issue. Even many American law-enforcement officials who are upset that North Korea is counterfeiting nonetheless question the view that the counterfeiting poses an urgent threat. In Congressional testimony delivered in April, Michael Merritt, deputy assistant director of investigations for the Secret Service, which is responsible for protecting the nation’s currency from counterfeiters, said that the supernote was “unlikely to adversely impact the U.S. economy based on the comparatively low volume of notes passed.”

The Bush administration, though, is taking a hard line. In response to a question after a speech in Philadelphia in December, President Bush himself suggested that counterfeiting is among the regime’s gravest fronts. “North Korea’s a country that has declared boldly they’ve got nuclear weapons,” he said. “They counterfeit our money. And they’re starving their people to death.”

Funny Money

In December 1989, while counting a stack of $100 bills, an experienced money handler in the Central Bank of the Philippines became suspicious about one bill in particular. It passed the usual tests for authenticity but still felt a bit odd. The bill eventually found its way to the offices of the United States Secret Service. All counterfeiters sent to the Secret Service headquarters, in Washington, are examined under a microscope, scrutinized in ultraviolet light and otherwise dissected to reveal their flaws and shortcomings, as well as the printing techniques used in their manufacture. This information is then cross-checked with a database of all known counterfeiters.

As the mystery note underwent the usual scrutiny, it became apparent that this was no ordinary counterfeit. For starters, it was printed on paper made with the appropriate mix of three-quarter cotton and one-quarter linen of real U.S. currency. Making secure paper with this mix requires a special paper-making machine rarely seen outside the United States.

In addition, the note was manufactured using an intaglio press, the most advanced form of currency-printing technology available. These intaglio presses are far more expensive than ordinary offset, typographic or lithographic presses, which yield inferior counterfeits. An intaglio press coats the printing plates with ink, and then wipes the surface clean, leaving behind ink in the recesses of the engraving. The press then brings paper and plate together under pressure, so that the ink is forced out of the recessed lines and deposited on the paper, in relief. While counterfeiters made using the intaglio process had been seen on rare occasions before, this note surpassed all of them in the quality of the engraving.

As with other new species of counterfeits arriving in the offices of the Secret Service, the bill was given its own flat-file drawer and christened

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with a sequential number: C-14342. In time, its remarkable quality earned it its more informal honorific: the supernote. But as soon became clear, the supernote was merely one member of a family of counterfeit notes. Technicians at the Secret Service soon linked it to another intaglio note detected around the same time, C-14403. This counterfeit had a few defects that the note from the Philippines did not, suggesting it was manufactured before C-14342. Nonetheless, C-14342 was soon known by the name Parent Note 14342, or PN-14342.

The Secret Service has drawn up what looks like a genealogical chart of these and related bills, which agents showed me during a visit to their Washington offices this spring. The chart displays the many members of the supernote clan: C-21555, for example, the first “big head” $100 (so-called because of the design of the most recent U.S. bills), which was initially identified in London; and C-22500, a more recent arrival that appeared in Macao. The family, which now has 19 members and remains unparalleled even in the world of high-quality counterfeits, also includes two $50 notes: C-20000, a small-head supernote that appeared in Athens, in June 1995; and C-22160, a big-head version, first sighted in Sofia, Bulgaria.

Thanks to sophisticated tools, including mass spectroscopy and near-infra-red analysis, along with old-fashioned visual inspection, the labs of the Secret Service have established genetic links between the family members. These links are not a matter of resemblance so much as they are an indication of a common ancestry: the notes in the PN-14342 family have been created by an individual or an organization using the same equipment and the same materials, and most likely operating from a single location.

As the number of supernotes multiplied, the question arose: who created them? In theory, only governments can buy intaglio printing presses used for making money, and only a handful of companies sell them. Those facts alone pointed toward government involvement, but for some time there was no consensus as to which nation was behind the counterfeit. Many of the supernotes surfaced in the Middle East, notably in the Bekaa Valley of Lebanon and in Tehran. In 1992, Bill McCollum, a Florida congressman and chairman of the House Task Force on Terrorism and Unconventional Warfare, issued a report accusing Iran of printing the supernotes. The report estimated that the value of supernotes in circulation might eventually approach “billions.”

The Secret Service, however, distanced itself from this accusation. In a letter written in 1995 in response to a Government Accounting Office report on counterfeiting overseas, the Secret Service called the task force’s allegations “unsustained” and characterized its conclusions as being based on “rumor and innuendo.” In reality, evidence was pointing elsewhere.

A Picture Emerges

With a country as closed and secretive as North Korea, information about government activities is hard to come by. But in the late 1990s, a new source of information arrived in the form of defectors. Starvation, corruption and desperation had prompted thousands of North Koreans, many of them government officials, to flee the country. In 1997, two high-ranking bureaucrats — Hwang Jang Yop, a former secretary of the North Korean Workers’ Party, and Kim Duk Hong, head of a government trading company — sought political asylum at the South Korean Embassy in Beijing. They were the most prominent officials to defect, but they were hardly alone: thousands of North Koreans have fled to South Korea. Many thousands more have escaped to China.

In the international intelligence community, vetting accounts from defectors about activities in North Korea soon became a specialty — as well as a necessity, for the accounts were not always reliable. Raphael Perl, an analyst at the Congressional Research Service who has written extensively on Korea’s counterfeiting operations, told me that “a lot of defectors or refugees give us information, but they tell us anything we want to know. You have to question the reliability of what they say.”

Nonetheless, the most trustworthy of these accounts, when combined with more traditional intelligence sources, permitted a best guess of what might be happening in North Korea. And as far as counterfeiting was concerned, the picture that emerged suggested that the business had long been a passion for the country’s dictatorial ruler, Kim Jong Il, dating back to the 1970s, years before he took over the reins of power from his father, the country’s founder and first president, Kim Il Sung.

Today, on Changgwang Street in Pyongyang, the capital of North Korea, there is a barricaded compound of government buildings. Judging from satellite photos, these are unremarkable, rectangular structures that suggest no special purpose. Yet according to a North Korean specialist based in Seoul whom I spoke with recently, and who has interviewed many high-ranking North Korean defectors, including Hwang Jang Yop and Kim Duk Hong, these buildings are the home of Office 39, a government bureau devoted to raising hard currency for Kim Jong Il. (The
specialist was granted anonymity because of the sensitivity of relations between North and South Korea.)

While the operatives of Office 39 may well direct legitimate enterprises, including the export of exotic mushrooms, ginseng and seaweed, a substantial portion of the office’s revenue comes from its involvement in illicit activities: drug manufacturing and trafficking, sales of missile technology, counterfeit cigarettes and counterfeit $50 and $100 bills. According to Ken Gause, director of the Foreign Leadership Studies Program at the CNA Corporation, a policy group in Virginia that consults on national-security issues, the activities of Office 39 overlap with those of two other offices that occupy buildings in the same complex. The first, Office 38, manages the money acquired by Office 39, he said, while the second, Office 35, handles kidnappings, assassinations and other such activities.

All three divisions employ the same narrow coterie of elites, and all answer directly to Kim Jong II, who lives in a villa less than a mile away. The history of the operations of Offices 39, 38 and 35, Gause told me, closely follows Kim Jong II’s own rise to power through the party apparatus. In the early 70’s, after helping his father purge the ranks of the Korean Workers’ Party of competing factions, Kim Jong II assumed control of North Korea’s covert operations, mostly involving South Korean targets.

In the mid-70’s, according to defector accounts related to me by the North Korean specialist, Kim Jong II issued a directive to members of the Central Committee of the Korean Workers’ Party instructing that expenses for covert operations against South Korea be paid for by producing and using counterfeit dollars. Officials in charge of the operation supposedly brought back $1 bills from abroad, bleached the ink and then used the blank paper to print fairly sophisticated counterfeit $100 bills — though nothing close in quality to a supernote. Many of these notes were later used by North Korean agents implicated in attacks on South Korean targets, like the operatives arrested for the bombings of a South Korean government delegation in Rangoon in 1983 and a Korean Airlines jet in 1987.

According to the same defector accounts, Kim Jong II endorsed counterfeiting not only as a way of paying for covert operations but also as a means of waging economic warfare against the United States, “a way to fight America, and screw up the American economic system,” as the North Korean specialist paraphrased it to me.

In a similar vein, according to Sheena Chestnut, a specialist on North Korea’s illicit activities who has also interviewed several key defectors, counterfeiting was seen as an expression of the guiding idea of the regime: the concept of juche. Often loosely translated as “self-reliance” or “sovereignty,” the idea of juche entails an aggressive repudiation of other nations’ sovereignty — a reaction to the many centuries in which Korea capitulated to its larger, more powerful neighbors. “It appears that counterfeiting actually contributed to the domestic legitimacy of the North Korean regime,” Chestnut told me. “It could be justified under the juche ideology and allowed the regime to advertise its anticapitalist, anti-American credentials.”

By 1984, as North Korea’s planned economy began to fall apart, Kim Jong II, who by that time was effectively running much of the government, issued another directive, according to the North Korean specialist, who told me he has obtained a copy of the document. It explained that “producing and using counterfeit U.S. dollars” was a means, in part, for “overcoming economic crisis.” The economic crisis was twofold: not only the worsening conditions among the general population but also a growing financial discontent among the regime’s elite, who had come to expect certain perquisites of power. Counterfeiting offered the promise of raising hard currency to buy the elite the luxury items that they had come to expect: foreign-made cars, trips for their children, fine wine and cognac.

Laundering, Wholesaling and Redesigning

Earlier this year, I visited David Asher, a former senior adviser for East Asian and Pacific affairs in the State Department and an outspoken critic of the North Korean regime. In late 2001, he explained to me, Assistant Secretary of State James Kelly asked him to study why the North Korean regime had not collapsed, given that the country’s economy had declined even further over the previous decade, with industrial output alone falling by as much as three-quarters. Former Communist countries had ended their subsidies, Kim Il Sung had died, the country was stricken by floods and famine and the food-distribution system had collapsed. (Party slogans betrayed more than a hint of desperation: “Let’s Eat Two Meals a Day” was one of the era’s more uplifting exhortations.) Yet Kim Jong II, defying all expectations, managed to cling to power.

“How this was happening was perplexing, given the huge trade gap, even with adjustments for aid flowing into the country,” Asher recalled. “Something just didn’t add up. It didn’t account for why Kim was driving around in brand new Mercedes-Benzes or handing out Rolexes at parties and purchasing truly large quantities of cognac.”

As Asher and his colleagues began amassing intelligence, evidence of an array of illicit activities began surfacing — everything from ivory smuggling to the production of high-grade methamphetamine. And counterfeiting was at the core. “The more we found out about this counterfeiting of dollars, the more we thought it was outrageous,” Asher told me. These activities provided what Asher calls “an alternative framework for existence” and “the palace economy of Kim Jong II.”

In the spring of 2003, the State Department established the Illicit Activities Initiative, an interagency effort designed to investigate and counter North Korea’s criminal activities, and appointed Asher coordinator. The department began to systematically collect a variety of forensic and other evidence gathered by its own investigators, the Secret Service and elements of the intelligence community linking North Korea to the supernotes. (Asher declined to comment on the nature of the evidence, most of which remains classified.)

In addition, the department put together circumstantial evidence of North Korean counterfeiting that had been accumulating for more than a decade. In 1994, for example, authorities in Hong Kong and Macao apprehended five North Korean diplomats and trade-mission members carrying about $430,000 in bills that turned out to be counterfeits of the supernote variety. Additional North Korean diplomats, including an aide close to Kim Jong II who was attached to Office 39, were caught trying to launder millions of dollars worth of supernotes over several years, prompting an increased scrutiny of North Korea’s diplomatic and trading missions.

Thwarted, the regime seems to have changed tactics, harnessing new distribution networks and wholesaling the counterfeits to third parties who would funnel them to criminal gangs. In the late 1990’s, for instance, British detectives began tracking Sean Garland, the leader of the Official Irish Republican Army, a Marxist splinter group of the I.R.A. According to an unsealed federal indictment in Washington, Garland began working with North Korean agents earlier in the decade, purchasing supernotes at wholesale prices before distributing them through an elaborate criminal network with outposts in Belarus and Russia, as well as Ireland. (Garland denies the charges and is currently fighting extradition to the United States from Ireland.)

Details of the actual manufacture of counterfeit notes also began filtering into the State Department, much of the information derived from defector accounts. According to similar accounts compiled by Sheena Chestnut and the North Korean specialist in Seoul whom I spoke with, the regime obtained Swiss-made intaglio printing presses and installed them in a building called Printing House 62, part of the national-mint complex in Pyongyang, a city outside Pyongyang, where a separate team of workers manufactures the supernotes.

In 1996, frustrated by the high-quality imitations of its currency in worldwide circulation, the United States government redesigned the money for the first time since 1928. Out went the old-fashioned symmetrical designs, replaced by the big-head notes. Almost everything about the
new design was aimed at frustrating potential counterfeiters, including a security thread embedded in the paper, a watermark featuring a shadow portrait of the figure on the bill and new "microprinting," tiny lettering that is hard to imitate. The most significant addition was the use of optically variable ink, better known as O.VI. Look at the bills in circulation today: all 10's, 20's, 50's and 100's now feature this counterfeiting deterrent in the denomination number on the lower-right-hand corner. Turn the bill one way, and it looks bronze-green; turn it the other way, and it looks black. O.V.I. is very expensive, costing many times more than conventional bank-note ink.

A Swiss company named SICPA is the major manufacturer of O.V.I., and the United States purchased the exclusive rights to green-to-black color-shifting ink in 1996. Other countries followed, purchasing color-shifting inks of different colors for their own currency. One of the first countries to do so, interestingly enough, was North Korea, whose currency, the won, counterfeiters ignore. North Korea purchased O.V.I. from SICPA that shifts from green to magenta. For the purposes of counterfeiting American currency, it would be a smart choice: magenta is the closest color on the spectrum to black. "The green-to-magenta ink can be manipulated to look very close to green-to-black ink," Daniel Glaser of the Treasury Department told me. "They took this stuff the same year we went to O.V.I." According to Glaser, the North Koreans managed to fiddle with the new ink, obtaining an approximation of the O.V.I. on the bills.

Though there is some dispute on the timing, the first counterfeit big-head supernotes might have arrived on the market as early as 1998. Like the earlier generation of supernotes, the big-head imitations show an ever-growing attention to detail. "They would certainly fool me," said Glaser, who points out that the "defects" of the supernote are arguably improvements. He recalled looking at the back of a $100 supernote under a magnifying glass and noticing that the hands on the clock tower of Independence Hall were sharper on the counterfeit than on the genuine.

From all accounts, superb quality is a feature of much North Korean contraband: methamphetamine of extraordinarily high purity; counterfeit Viagra rumored to exceed the bona fide product in its potency; supernotes. It's an impressive product line for a regime that can barely feed its people. When I discussed this with Asher, he let out a sigh. "I always say that if North Korea only produced conventional goods for export to the degree of quality and precision that they produce counterfeit United States currency, they would be a powerhouse like South Korea, not an industrial basket case."

The Threat
How many supernotes are in circulation, and what sort of provocation do they represent?

Most government officials interviewed for this story declined to give an estimate, but several, including Michael Merritt of the Secret Service, noted that his agency has removed $50 million worth of supernotes from circulation. That is a far cry from the "billions" predicted by Representative Bill McCollum's task force in the early 1990's, and while it may still sound like a lot, it is insignificant relative to the $12 trillion dollar American GDP.

When supernotes are discovered in a smaller foreign economy that makes use of American currency, they can cause a local crisis of confidence in the dollar (this has happened in Taiwan and Ireland, for instance). But in the United States, the economic threat is minimal. For this reason, many analysts, particularly those outside the administration, like Raphael Perl of Congressional Research Service, express concern about making the issue into a diplomatic crisis. Perl, who agrees that the North Koreans are behind the counterfeiting, told me that because American government officials often view the violation of the currency as "a matter of national honor," there is "an emotional factor that could get blown out of proportion." In the process, he argued, counterfeiting can become conflated with other, more pressing problems posed by the North Korean regime, like its nuclear threat.

This conflation may also be deliberate. According to Kenneth Quinnones, who was the North Korea country director in the State Department in the 1990's, hawks in the current administration may be trying to use the counterfeiting issue to impede negotiations with the regime over its nuclear program. Critics of this approach note that the freezing of the North Korean bank accounts took place in the same month that participants in the six-party talks, the multination negotiations over North Korea's nuclear program, hammered out an agreement that the regime would abandon its nuclear-weapons program. North Korea soon reneged on its promise to abandon its nuclear program and has since refused to rejoin the talks until the United States lifts the designation on Banco Delta Asia. The hawks, Quinnones told me, "are attempting to use these sanctions" to help "bring down the regime."

The senior administration official interviewed for this article dismissed that claim. "The notion that there was a grand conspiracy by hard-liners is just wrong," he told me. "It's not accurate. This was done as a law-enforcement action by appropriate U.S. government agencies based on the facts of the case."

Even if the counterfeiting is not worthy of being a diplomatic issue unto itself, the fact that North Korea is counterfeiting may still serve as a grim reminder of the difficulty of good-faith negotiations with North Korea. Just consider that the supernotes that were seized by law-enforcement officials in New Jersey and California arrived in the United States while the six-party talks were going on. Asher, for one, was stunned by the audacity of the regime. "If they're going to counterfeit our currency the entire time they're engaged in diplomatic negotiations, what does that say about their sincerity?" he asked me. "How can they want normalization with a country whose currency they're counterfeiting? How can they expect it?"

However the diplomatic standoff is resolved, Asher said that he believes North Korea won't continue to counterfeit much longer. Next year, the Bureau of Engraving and Printing is issuing an updated version of the $100 bills. The notes will be expensive to manufacture, requiring the purchase of a new set of presses at a cost that Asher estimated in the "hundreds of millions" of dollars. The Treasury Department characterizes the next generation of notes as part of a routine redesign that it will undertake on a regular schedule every decade. But Asher has no illusions as to the timing. "It might be a routine update," he said, "but it's a routine update that's being instigated by one country: North Korea."