

Tracking the North Korean Supernote

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Kim Jong Il's regime is accused of counterfeiting US hundred dollar bills that are good enough to fool some experts. Turns out, they are easy to buy just across the border into China. But you can't fool a Hong Kong money changer

As Chinese cities go, Dandong, on the border with North Korea in Liaoning province, is strictly small change. A place notable mostly for the Sino-North Korean "Friendship Bridge" which spans the Yalu River and is memorialized as the only Chinese target bombed by U.S. forces during the Korean War.

At night the current bridge is colorfully lighted from prosperous Dandong to the midpoint before it falls into darkness. North Korea's ailing power system doesn't allow for gaudy, needless nighttime displays. Alongside, what is left of the original bridge still stands as it was after it was sheared off nearly at the border line by planes commanded by Gen Douglas MacArthur.

These days there is also a reasonable facsimile of another famous American crossing the river in the opposite direction — Benjamin Franklin. If you've got the connections here, and they aren't hard to find, you can easily encounter Franklin's enigmatic face for about US\$50 — on a reasonable copy of a US \$100 bill. These presumably Pyongyang-printed Big-Head Benjamins are known worldwide as "supernotes."

We know. We bought one.

While the US, in months-long, excruciating negotiations has sought to reform the recalcitrant country and dry up its bogus bills, they can still be bought readily by neophytes directly across the border in Dandong. And, as counterfeits go, they are first class and close to center of the current negotiations between the U.S. Treasury Department, China and Macau officials over lifting a 2005 freeze imposed on US\$24 million in North Korean accounts at Macau's Banco Delta Asia. Washington had charged that the small bank, with close ties to North Korea, was accepting large cash deposits from Pyongyang, including supernotes, and passing them into international circulation.

While there are no accurate estimates of the number in circulation, a US Secret Service agent told the New York Times last year that his agency had removed US\$50 million worth. In Hong Kong, police said 15,573 supernotes were discovered in 2005 and 6,826 last year.

The first supernote in Hong Kong was detected in December 1989. At about the same time another one surfaced after a money handler at the Central Bank of the Philippines told the US Secret Service it didn't "feel right". That bill, however, passed every other test at the time and the high quality work inspired the original "supernote" moniker. In 1994 authorities in Hong Kong and Macau seized US\$430,000 in supernotes from five North Korean diplomats and trade mission representatives.

The sums are really insignificant in terms of the US\$1.9 trillion in foreign exchange that flows across the planet daily but media attention has put the bills on the map. US\$300,000 worth of supernotes were found on a Chinese ship flying a Panamanian flag in October 2004, followed by US\$3 million more two months later. Accounts surfaced by North Korean defectors and there were subsequent large busts and the disclosure that an offshoot of the Irish Republican Army had reportedly cut a supernote deal with North Korea. Finally, the Banco Delta Asia scandal made the bills a major point in the recent six-nation talks over the rogue regime's nuclear program.

In Dandong, it's not millions or hundreds of thousands of supernotes that are being hawked off the street by Kim Jong Il clones in green jumpsuits, platform shoes and bouffant hairdos. Scoring a few is more like a low-level dope deal

from a friend-of-a-friend for a quarter ounce of marijuana than a matter of major intrigue.

Our supernote purchase \$100, US Series 2003, serial number DI03120777A (acquired strictly for purposes of this story) took place literally within the shadow of the China Bank of Communications. The bank is directly across the street from the Dandong office of China Customs, which in turn is next to a People's Liberation Army facility as is the Dandong Police headquarters. Coincidentally, the transaction also took place on the afternoon of Kim's 65th birthday, February 16.

Not counting three phone calls over two days, driving and waiting time, the deal took about five minutes and the Chinese seller, who makes a living changing foreign money at black market rates, had about 16 more supernotes for sale. So where did he get them?

At first he said he got them "accidentally" from various "foreign tourists" who were changing them for yuan. Were the "tourists" from North Korea? He shrugged and smiled and said perhaps "some" had relatives or friends over there across the mighty Yalu. But after asking if he could sell one or two more, he quickly left on his bicycle after taking a brief mobile phone call.

Was the proximity of so much Chinese financial, military and governmental real estate a coincidence, like Kim's birthday? Yes and no, said Raphael Perl, an analyst at the U.S. Congressional Research Service who has been to Dandong and written extensively on North Korean counterfeiting as well as commerce, trade and criminal activity between North Korea and China.

"For China there's a certain degree of 'don't ask, don't tell' (regarding North Korea)," Perl said. "Regarding activity such as counterfeiting, as long as it's not yuan, there's a pragmatic incentive for China to look the other way. It's not a high priority and the only degree to which it is a priority is the degree to which (the U.S.) pushes it. I think it's very clear that China sees North Korea differently than we do in the U.S. Unlike the U.S. they are very familiar with North Korea and their aim is to normalize their ties and keep the relationship open."

Dandong is also one of the few key commercial channels between the two countries, Perl says. You can see that on the Chinese side of the Yalu in the brightly lighted promenade of street vendors, karaoke bars, and North Korean-owned restaurants, hotels, coffee shops and brothels disguised in the traditional Korean fashion as "barber shops";

In addition, Perl described an extensive trade in North Korean counterfeiting of Chinese antiquities ("North Korea makes some of the best Chinese antiques," says Perl), Dandong is also home to legitimate North Korea state-owned businesses such as restaurants and hotels.

He pointed to one other obvious connection between the two countries, though a clue easily overlooked by most. While the bridges draw most attention to the eyes, there are also large power lines stretching from Dandong across the Yalu into North Korea. Perl sees them as visible proof of larger commercial ties between China and North Korea.

Perl and other analysts said that North Korea's incentive to produce supernotes may be two-fold — to prop up its ailing economy but also to keep Pyongyang's power elite supplied with luxury goods. And North Korea doesn't just counterfeit extraordinary currency and Chinese antiques — it also reportedly turns out top-grade phony Viagra, western cigarettes and real methamphetamine. The supernotes are reportedly at the core — selling them provides badly needed hard currency and perks such as foreign cars, wine, medical care and private schools and vacations for the children of the country's power brokers.

As for the supernotes, Perl said "a lot" are passed through low-level contacts, such as the bicycle-riding black market money changer we met, though it is the big hauls which get the publicity. And if a Chinese bank detects one?

"They have a disincentive to detect bad foreign bills. Many Chinese banks do have counterfeiting detection

machines, but they don't always work right so draw your own conclusions," Perl said.

Indeed, several days after that conversation we entered a Shenzhen branch of the Agricultural Bank of China in southern Guangdong province and presented a teller with two US\$100 bills. One was the Dandong supernote and the other a real 1999 series bill. Through a translator the teller was told that the bearer, an American, wanted to know if they were authentic.

She scrutinized both for several minutes, holding them against the light to look for ghostly watermarked Ben Franklins before saying apologetically that the bank was more familiar with counterfeit Chinese currency, which is rampant, homegrown and largely photocopied, not manufactured on expensive imported Swiss-made presses in a secret complex called Printing House 62 outside of Pyonyang, as the supernotes are said to be. There they are presumably done right to give Ben the same touch as a real bill. "The surface of the note feels slightly raised, while the reverse side feels slightly indented. This process is called intaglio printing," according to the US Bureau of Engraving and Printing website.

A counterfeit-bill detecting machine similar to ones used in casinos and about the size of a large wallet was produced and the bills inserted one at a time. The real \$100 slid through effortlessly but the supernote stopped three fourths of the way through and a small red light began blinking.

"The machine doesn't always work," the teller explained. "So maybe it is real." She was giving it the benefit of the doubt, a situation unlikely to occur should the same test be requested at a bank in Hong Kong or the United States. The manager added that the test could be repeated in a few days when an "expert" could be summoned. And if the supernote flunked again?

The teller shrugged and smiled and said that the bill would "probably" be taken by the bank. "And destroyed? Passed on to higher authorities?" she was asked.

"Maybe, maybe," she said.

In Hong Kong — as in the Philippines when the first one was officially detected — the Dandong supernote flunked the test given by those who handle large amounts of foreign cash on a daily basis, professional money changers. The clue for a husband and wife team in Kowloon was in a small color detail. Since 1996 when concern about supernotes forced the U.S. to change its currency design for the first time since 1928, among the new features — such as big-headed historical luminaries and security threads — was a Swiss manufactured optically variable ink or O.V.I. On the right-hand-corner of every redesigned ten, twenty, fifty and one hundred dollar bill is a denomination number printed in O.V.I. Shift it one way and it turns greenish bronze. Turn it another and it appears to be black.

According to University of Georgia associate professor Stephen Mihm, who has written extensively about counterfeit currencies, a U.S. Treasury Department official told him that North Korea has purchased a green-to-magenta (close to black) O.V.I that comes close to duplicating the U.S. color change effect.

But not close enough for Kowloon. When given both bills it took the couple about two minutes to confidently select the phony bill — "bad color!" — and advise that it be taken to the nearest bank for confiscation. In Wanchai, a Western Union clerk, equally used to handling massive amounts of foreign currency, immediately picked out the phony bill. Asked why, she said it just didn't quite feel right.

Perl said he wasn't surprised. "They have an instinct after awhile. They are professionals who handle money constantly. Some of them are better than the machines."

He asked how much we paid for the supernote. A March 2006 report he'd coauthored for the Congressional Research Service, "North Korean Counterfeiting of U.S. Currency", noted that a printed \$100 trades at 30 percent of face value while those spun out with color copy machines go for 10 percent.

We'd paid 50 percent for what appeared to be a printed bill and there was a hesitant, embarrassed pause before the truth was revealed.

Had we been taken? Did we pay retail when we could've gotten it wholesale?

"You got a good deal," he replied reassuringly. "Anything between 30 to 50 percent -- not bad."