

**Joseph T. Rannazzisi**  
**Deputy Assistant Administrator**  
**Office of Diversion Control**  
**Drug Enforcement Administration**  
**U.S. Department of Justice**

Regarding

**“Breaking the Methamphetamine Supply Chain: Law  
Enforcement Challenges”**

Before The

**Senate Committee on Finance**



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## **INTRODUCTION**

Chairman Grassley, Ranking Member Baucus, and distinguished members of the Senate Committee on Finance, on behalf of the Drug Enforcement Administration (DEA), I appreciate your invitation to testify today regarding the challenges that DEA and our law enforcement partners face in breaking the methamphetamine supply chain. Doing what we do best, DEA, through our law enforcement partnerships across the country and around the world, is actively engaged in attacking the criminal organizations responsible for the trafficking in methamphetamine, the precursors utilized in its production, and the financial infrastructure these organization have established to feed and support their illicit activity.

## **METHAMPHETAMINE: AN OVERVIEW**

The Administration's *2006 Synthetic Drug Control Strategy - A Focus on Methamphetamine and Prescription Drug Abuse* is a companion document to the President's *National Drug Control Strategy*. The unique nature of the illicit market for synthetic drugs, such as methamphetamine, warrants a targeted response as the illicit markets for synthetic drugs contain unique challenges and vulnerabilities. The *Synthetic Drug Control Strategy* also adheres to the format of the President's *National Drug Control Strategy* by setting goals, specifically for reducing synthetic drug use primarily of methamphetamine by 15 percent over three years and reducing domestic methamphetamine laboratories by 25 percent over the same period. The President's *National Drug Control Strategy* and the *Synthetic Drug Control Strategy* have established a framework on which DEA will continue to perform its mission in support of those strategic goals.

Methamphetamine poses a significant threat to the United States. Methamphetamine is unique from other common drugs of abuse in that it is a synthetic drug and its precursor chemicals have historically been easy to obtain and inexpensive to purchase. These factors have contributed to methamphetamine's rapid sweep across our nation.

Methamphetamine's addictive characteristics produce devastating effects on all of its victims. These victims are not only limited to those who choose to use this poison, but others who become part of what could be considered methamphetamine's "collateral damage." Those who suffer the "second hand" effects of meth include the victims of methamphetamine-related crimes, innocent children whose homes have been turned into toxic clandestine lab sites, law enforcement officers who work with the hazardous materials found at lab sites, and the environment from the approximately five pounds of toxic waste produced for every pound of methamphetamine cooked. Methamphetamine has not only left a mark on the United States, but continues to be a significant problem in Asia and is increasingly becoming a problem in other parts of the world.

Methamphetamine consumed in the United States originates from two general sources, controlled by two distinct groups. Most of the methamphetamine consumed in the United States is produced by Mexico-based and California-based Mexican traffickers. These drug trafficking organizations control "super labs" (a laboratory capable of producing 10 pounds or more of methamphetamine within a single production cycle) and have distribution networks throughout the United States, as well as access to drug transportation routes to smuggle the methamphetamine from Mexico into the United States. Current drug lab and seizure data suggest that the majority of the methamphetamine used in the United States comes from these larger labs, which are increasingly found in Mexico.

Many of these drug trafficking organizations are of a poly-drug nature and distribute large quantities of methamphetamine to the domestic market. These same Mexican criminal organizations control most wholesale, mid-level, and retail methamphetamine distribution in the Pacific, Southwest, and West-Central regions of the United States, as well as much of the distribution in the Great Lakes and Southeast regions.

The second source for methamphetamine used in this country comes from small, toxic laboratories (STLs) located throughout the United States. These STLs produce relatively small amounts of methamphetamine, are generally not affiliated with major trafficking organizations, and are responsible for approximately 20 percent of the methamphetamine consumed in this country. Initially found only in most Western States, over the past 10 years there has been an eastward expansion of STLs, peaking with over 17,000 lab incidents reported in the United States in 2004. A number of factors have served as catalysts for the spread, including the presence of “recipes” easily accessible over the Internet, ingredients needed to produce methamphetamine, which were available in many over-the-counter cold medications and common household products found at retail stores, coupled with the relatively simple process involved to manufacture methamphetamine. Thanks in large part to the legislative restrictions placed on the sales of methamphetamine precursor chemicals, DEA has seen a significant decrease in the number of STLs found in 2005.

The common denominator in targeting both STL’s and foreign source methamphetamine is the control of methamphetamine’s primary precursor chemicals: ephedrine, pseudoephedrine, and phenylpropanolamine. At DEA, we have taken an active role in fighting the diversion of these key methamphetamine precursors. These efforts, through both enforcement and international agreements, have resulted in a reduction in the amount of precursor chemicals entering the United States. However, with this success, we have seen an increase in the flow of these precursor chemicals to other areas and an increase in the trafficking of methamphetamine from foreign sources into the United States.

In response to the threat posed by methamphetamine, DEA has taken several steps to address this threat through both domestic and international enforcement efforts. Domestically, law enforcement efforts have been aided by State and Federal legislation placing restrictions on the sale of methamphetamine’s precursor chemicals. Of note, the recent passage of the re-authorization of the USA PATRIOT Act (particularly Title VII, the “Combat Methamphetamine Epidemic Act of 2005”) has provided important additional tools to enhance law enforcement efforts both domestically and internationally.

DEA has also stepped up its efforts to focus on the financial side of drug trafficking organizations. Drug money is the life blood of drug trafficking organizations, and denying this funding is at the core of any effective drug enforcement strategy. DEA’s financial enforcement program and the philosophy behind it apply DEA resources in the most effective and efficient manner to accomplish our mission of stopping the supply of illegal drugs from reaching the American Public. DEA’s financial enforcement strategy is mission-driven in that we are focused on the flow of money back to international sources of drug supply, because this is the money that is destined to finance the next cycle of illegal drugs that will target our consumer market.

#### *Domestic Initiatives*

With respect to DEA’s domestic efforts, we have redirected the focus of our Mobile Enforcement Teams (METs). DEA created the MET Program in 1995 to enhance our ability to attack violent drug trafficking organizations. MET was established on the premise that a skilled and trained

team of investigators targeting violent drug gangs would be a tremendous resource for local law enforcement. MET teams are deployed on a temporary basis (averaging 6 months per deployment) at the request of state and local law enforcement officials to assist the disruption or dismantlement of violent drug trafficking organizations and gangs.

Beginning in March 2005, DEA redirected its METs to prioritize deployments to assist with methamphetamine investigations. This shift was due to the rise in meth drug trafficking organizations and the violence associated with them. Currently, these teams focus on targeting methamphetamine Priority Target Organizations (PTOs) and clandestine laboratory operators in areas of the United States that have a limited DEA presence.

The significant reduction in the number of domestic small toxic labs this year, due in large part to recent legislation restricting access to methamphetamine precursor chemicals, will allow DEA's Clandestine Laboratory Enforcement Teams (CLETs) to expand their efforts beyond dismantling methamphetamine labs to also include the targeting of Mexican methamphetamine trafficking organizations. These DEA clandestine lab teams will use their lab expertise to trace precursor chemicals and seize finished methamphetamine and drug proceeds from drug trafficking organizations in the U.S. and Mexico. These teams also will work to identify and dismantle U.S.-based methamphetamine transportation and distribution cells.

Other domestic initiatives will include a national listing on the DEA Website of the addresses of properties in which methamphetamine labs or chemical dumpsites have been found. The registry will provide owners or renters with notice that a property may once have been used to produce methamphetamine and that there may be potential toxic hazards within the property.

DEA's longstanding enforcement efforts against methamphetamine include utilizing the Consolidated Priority Organization Targets (CPOTs) List, the PTO program, and the Organized Crime Drug Enforcement Task Force (OCDETF) program. These programs all provide assistance in identifying and targeting the most significant methamphetamine trafficking organizations, with the intent to disrupt and dismantle the organizations.

The FY 2006 CPOTs list has identified 8 of the 46 designated organizations as being engaged in methamphetamine trafficking. At the end of the second quarter of FY 2006, DEA had 149 active PTO investigations linked to those 8 CPOTs, of which 28 were active PTO investigations with methamphetamine as the primary type of drug. Since the inception of the PTO program in 2001, the DEA has either disrupted or dismantled in excess of 460 PTOs where methamphetamine was the primary drug involved.

To further coordinate and focus our methamphetamine and precursor chemical initiatives, the FY 2006 Department of Justice (DOJ) Appropriations Act directs the Attorney General to establish a Methamphetamine Task Force (MTF) within DEA. The purpose of the Task Force is to improve and target the Federal government's policies with respect to the production and trafficking of methamphetamine. The MTF is comprised of three DEA Special Agents, two Diversion Investigators (DIs), three Attorneys, and one Program Analyst. These are veteran personnel with extensive experience and knowledge in the field who will collect and analyze investigative and intelligence information from numerous sources. Their analysis will focus on trends in chemical trafficking and manufacturing methods, changes in trafficking routes and patterns, and regional abuse and distribution patterns. They also will analyze and monitor foreign and domestic precursor sources and trafficking trends, as well as methods of financing. In addition, the MTF will be involved in tracking sources of

chemicals and equipment, as well as methods of procurement and clandestine laboratory cleanup issues. Another aspect of the MTF's duties will involve the proposal of various recommendations addressing issues that are identified from their analysis. These recommendations will be forwarded to the National Synthetic Drugs Interagency Working Group for review and action.

In addition, the Combat Methamphetamine Epidemic Act of 2005 provides effective new tools to use in the battle against methamphetamine. The ability of pseudoephedrine to be sold on the spot market will be effectively taken away. These transactions, which were not regulated under the prior law, will be treated as new imports or exports and, therefore, subject to 15 day advance notification during which DEA will verify the legitimacy of the transaction. In addition, DOJ has the authority to establish production and import quotas for ephedrine, pseudoephedrine, and phenylpropanolamine. These quotas will allow for greater control of precursors that are imported into the United States.

### *Partnership with State and Local Law Enforcement*

DEA has long prided itself on the outstanding relationship it has developed with its federal, state, and local counterparts. Whether on individual cases, through the High Intensity Drug Trafficking Area (HIDTA) program, or in formal DEA task force settings, many of the investigations we are working with our counterparts are among the best in the agency. With respect to our formalized state and local task force program it is important to note that DEA's successful enforcement efforts across the United States are not only led by DEA Special Agents but also by Task Force Officers (TFOs) from state and local agencies who are assigned to DEA offices. These TFOs are deputized by the DEA and have the same authority as DEA Special Agents. TFOs assigned to DEA offices throughout the country work alongside our Special Agents, DIs, and Intelligence Research Specialists with the same goal: to target the most significant drug trafficking organizations that can be identified in their areas of responsibility. Working in a task force setting brings together the expertise of the individual investigators and agencies and serves as a force multiplier, by which law enforcement can better attack the drug threats, to include methamphetamine, facing our nation. Many of these TFOs are members of our CLETs.

DEA continues to take a very aggressive role in training our drug law enforcement counterparts with respect to methamphetamine investigations. To expand and improve our efforts, DEA is establishing a new state-of-the-art clandestine lab training facility at the DEA Academy in Quantico, Virginia. The construction of this facility is expected to begin in the fall of 2006. Once the facility is operational, DEA will continue to train state and local officers, as well as foreign law enforcement officials, on the latest safety techniques and the latest techniques in detecting and investigating clandestine methamphetamine labs.

In addition, DEA continues its work to ensure that only legitimate businesses with adequate chemical controls are licensed to handle bulk pseudoephedrine and ephedrine in the United States, primarily through the efforts of our DIs. DIs are specialists in working with legitimate businesses to ensure compliance with the laws and regulations that govern the manufacture, sale, and transport of pharmaceuticals and other controlled chemicals. The investigative work done by these DIs, through their knowledge of pharmaceuticals and chemicals, plays a critical role in preventing the diversion of List I chemicals and pharmaceutical controlled substances. In the past 7 years, over 2,000 chemical registrants have been denied, surrendered, or withdrawn their registrations or applications as a result of DEA investigations. Between 2001 and 2004, DIs physically inspected more than half of the 3,000 chemical registrants at their places of business. We investigated the adequacy of their security

safeguards to prevent the diversion of chemicals to the illicit market and audited their recordkeeping to ensure compliance with federal regulations.

### *International Initiatives*

The manufacture and use of methamphetamine is not a problem confined to the United States but one that has spread to many regions of the world. In fact, the International Narcotics Control Board (INCB) noted in its 2005 report *Precursors and Chemicals Frequently Used in the Illicit Manufacture of Narcotic Drugs and Psychotropic Substances* that the illicit manufacture of methamphetamine is spreading throughout the world at an alarming rate.

Specifically, the INCB report stated that the illicit manufacture of amphetamine-type stimulants (ATS)\*, and of methamphetamine in particular, is spreading in North America and South-East Asia, but also increasingly to other areas such as Africa, Eastern Europe, and Oceania. There are an estimated 26.2 million ATS users in the world, compared to an estimated 13.7 million cocaine users and 10.6 million heroin users. The report further stated that the spread of methamphetamine is due to the simple manufacturing process and the availability of the required precursors.

From DEA's perspective, increased international cooperation is essential to our continued efforts to combat methamphetamine. Some of the most significant and successful international efforts to combat methamphetamine involve a series of enforcement initiatives worked jointly between law enforcement in the United States and Canada from the late 1990s into 2003. These enforcement initiatives, known as Operations MOUNTAIN EXPRESS I, II, and III and Operation NORTHERN STAR, were principally responsible for the significant reduction in the amount of pseudoephedrine entering the United States for use in super labs. In turn, most of the super labs and the pseudoephedrine needed for them moved from the United States to Mexico.

DEA is the lead agency in working with our Mexican counterparts to combat methamphetamine. Since 2001, DEA with support from the Department of State and other U.S. law enforcement agencies has provided or sponsored training on numerous occasions for our Mexican counterparts in the areas of clandestine laboratories, chemical training, and related prosecutions. Training has been provided both to officials who regulate precursor chemicals and pharmaceuticals at the state and Federal level within Mexico, as well as agents from the Agencia Federal de Investigaciones (AFI) and a number of prosecutors within the Mexican Organized Crime Unit (SIEDO). The combined numbers of students who have received training through these cooperative efforts exceed 450.

Mexico has independently implemented several controls on pseudoephedrine in cooperation with industry and is considering others. Those implemented now, or planned soon, include: (1) limiting retail sales to pharmacies; (2) limiting sale quantities to 3 boxes of 60 milligram or more combination pseudoephedrine products; and (3) distributors voluntarily agreeing to limit sales to customers with appropriate government registrations (pharmacies) and with legitimate commercial needs. Mexico also imposed recently a policy limiting imports of pseudoephedrine and ephedrine to manufacturers only. Wholesale distributors are barred from importing raw material pseudoephedrine and ephedrine, and importers are limited to shipments of no more than 3 metric tons at a time. In addition, the United States and Mexico have jointly obtained a commitment from Hong Kong not to ship chemicals to the United

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\* In Europe and Asia the term "amphetamine-type stimulants" is used rather than a specific reference to methamphetamine. The term ATS includes the following: amphetamine, methamphetamine, and MDMA (Ecstasy), and its analogues. This term also is used by the United Nations.

States, Mexico, or Panama until receiving an import permit, or equivalent documentation, and to pre-notify the receiving country before shipment. Combined with other controls that the Government of Mexico has put in place, this agreement has significantly reduced the number of suspect shipments of methamphetamine precursor chemicals from Hong Kong to Mexico.

Very recently, Mexico began imposing import quotas tied to estimates of legitimate national needs, which are based on extrapolations from a large population sample. A study conducted by The Federal Commission for the Protection against Sanitary Risk (COFEPRIS) estimated that there was an excess of imports of pseudoephedrine products of approximately 60 to 100 metric tons in 2004. The Government of Mexico reported that its efforts to control methamphetamine precursor chemicals reduced imports in 2005 by 40 percent to 130 metric tons from its peak of 220 metric tons in 2004. DEA has been advised that it is the Government of Mexico's intention to reduce further pseudoephedrine and ephedrine importation permits to 70 metric tons in total for 2006. Mexican officials have further advised that this 70-ton limit also applies to combination products containing pseudoephedrine and/or ephedrine.

An example of Mexico's interdiction efforts concerning pseudoephedrine occurred during December 2005, when approximately 3.2 metric tons (approximately 5.1 million pseudoephedrine combination tablets) of pseudoephedrine were seized by Mexican authorities in the Port of Manzanillo, Mexico. The tablets were concealed within a shipment of electric fans, which were packaged in approximately 1,260 boxes. During the follow-up joint investigation conducted by DEA and Hong Kong Customs and Excise Department, officials disclosed that the shipment originated in mainland China and transited one of the mainland China/Hong Kong border crossings before being subsequently loaded on a marine vessel en route to Mexico.

Additional steps are also being taken by the United States and Mexico. At the May 2006 National Methamphetamine and Chemicals Initiative (NMCI) Strategy Conference in Dallas, Attorney General Gonzales announced important new anti-methamphetamine domestic initiatives, as well as new partnerships between the United States and Mexico in fighting methamphetamine trafficking. Joined by Mexican Attorney General Daniel Cabeza De Vaca, Attorney General Gonzales unveiled DOJ-led initiatives to improve enforcement, increase law enforcement training, improve information-sharing, and increase public awareness.

Among the United States/Mexico partnership efforts is an agreement between DEA and the Mexican government to establish specialized methamphetamine enforcement teams on either side of the border. In Mexico, these teams will focus on investigating and targeting the most wanted Mexican methamphetamine drug trafficking organizations, while DEA-led efforts on the United States side will focus on the methamphetamine traffickers and organizations transporting and distributing the finished methamphetamine being produced in Mexico. Other initiatives that are part of the United States/Mexico partnership include:

- A new DEA, U.S. Immigration and Customs Enforcement (ICE) and Customs and Border Protection effort to focus on ports of entry with the intent of targeting suspicious cargo that is likely to be related to methamphetamine trafficking organizations;
- A Bi-national Law Enforcement Working Group that will focus on methamphetamine production and trafficking from both an enforcement and intelligence perspective;

- A DEA and Mexican National Conference for Information, Analysis and Planning in Order to Fight Crime effort to further share intelligence information and continue to develop stronger working relationships. Such collaborative efforts will focus on investigating large-scale methamphetamine trafficking organizations that are operating in Mexico and the United States.
- A jointly developed DEA and Mexican police Most Wanted List of chemical and methamphetamine trafficking organizations that will focus bilateral law enforcement efforts on the biggest threats;
- An agreement between the DEA Office of Diversion Control and Mexico's chemical regulatory agency, COFEPRIS, to a personnel exchange in which chemical regulatory experts from within each agency will be embedded within the other's agency for a specific period to observe, learn best practices, and then implement joint strategies complimentary to both regulatory agencies;
- Eight DEA trucks used in clandestine lab enforcement operations that have been refurbished by the Department of State and donated to Mexico to be used by the above referenced specialized Mexican enforcement teams; and
- In conjunction with the Department of State's (DOS) Bureau for International Narcotics and Law Enforcement Affairs, DEA will provide training for nearly 1,000 Mexican police officials to focus on a variety of investigative, enforcement, and regulatory methods related to methamphetamine trafficking.

Another important aspect of our international efforts to combat this drug has been the assignment of DIs to a number of our foreign offices. The DIs coordinate with foreign host country counterparts to establish effective systems of chemical controls and ensure customers in foreign countries receiving U.S. exports of pharmaceutically controlled substances are in fact, legitimate companies.

In addition to these efforts with Mexico, the DEA, operating under the auspices of the INCB's Project Prism, hosted a meeting in February in Hong Kong for law enforcement and regulatory officials of producing countries of ephedrine/pseudoephedrine and 3-4 methylenedioxyphenyl-2-propranolone. The objective of this meeting was to develop and enhance systems for voluntary cooperation in data collection and the exchange in law enforcement channels of information on pharmaceutical preparations containing ephedrine and pseudoephedrine, as well as bulk precursor chemicals. This was the first time that almost all of the countries that produce these chemicals and those countries affected by methamphetamine have sat down together to discuss this problem.

While there were some differences of opinion as to the manner and channels in which information regarding the licit trade in these substances should be exchanged, it was important to bring precursor-chemical-producing nations and nations in which illicit drug manufacturing occurs together for candid discussions. The communication that occurred between countries attending the open forum meeting was encouraging. DEA, in cooperation with the Department of State (DOS), will continue discussions with all involved countries. The discussions will seek to determine the worldwide production of these chemicals to further identify producers and distributors, to gain better insight as to what form (bulk versus tablets) the chemicals are manufactured and distributed at various stages, and to learn where the chemicals are destined.

The Hong Kong meeting also helped to lay a foundation for discussions and negotiations between concerned governments, which led to the passage of a resolution at the 49<sup>th</sup> Commission on Narcotic Drugs in Vienna, Austria in March of this year. The resolution, entitled "Strengthening



Systems for Control of Precursor Chemicals Used in the Manufacture of Synthetic Drugs,” involves the synthetic drug precursors previously mentioned, as well as preparations containing these substances and phenyl-2-propanone (P2P).

The resolution calls on all nations who are signatories to the various United Nations’ conventions dealing with drugs and precursor chemicals to provide to the INCB annual estimates of their legitimate requirements for these substances and preparations containing these substances. The resolution also calls for nations to ensure that their imports of these substances are commensurate with their respective nation’s legitimate needs and urges them to continue to provide to the INCB, subject to their national legislation and taking care not to impede legitimate international commerce, information on all shipments of these drugs and precursor chemicals. The resolution further requests countries to permit the INCB to share the shipment information on these consignments with concerned law enforcement and regulatory authorities to prevent or interdict diverted shipments. While we consider this resolution an important first step, our ability to obtain additional information from the INCB is contingent upon nations providing the information requested pursuant to the resolution.

Most recently, the Combat Methamphetamine Epidemic Act of 2005 will expand the notice of importation to include all information known to the importer on the chain of distribution. If it is determined that an importer is refusing to cooperate in providing such information or DEA has concerns about the downstream customers, the DEA may issue an order prohibiting the importation of Scheduled Listed Chemical Products (SLCP). Further, the Act requires the DOS to identify the five largest exporting countries and the five largest importing countries with the highest diversion of SLCPs and provide an economic analysis of worldwide production as compared to legitimate demand.

### **FOLLOWING THE MONEY**

The Office of National Drug Control Policy estimates that Americans spend approximately \$65 billion per year on illegal drugs. With only approximately \$1 billion seized per year, domestically, by all Federal agencies combined, no one can claim to have discovered the “holy grail” of drug financial investigations. DEA’s revenue denied program comprises a global accounting of DEA’s efforts to bankrupt DTOs, especially those with international DTOs that target our communities with their poison. DEA is an agency with global reach, with 86 offices in 62 countries. DEA’s financial enforcement strategy is “mission driven” in that we are focused on the flow of money back to the international sources of supply, since this is the very money that is destined to finance the next cycle of illegal drugs that will target our consumer market here in the United States. This is also the money that allows the international DTO’s to continue to operate. It is important to us at DEA to carry the fight to the doorstep of those DTOs that spread their poison in the United States and drain billions of dollars each year from our economy.

There is little doubt that the sole reason people sell drugs is for the money. Money serves as both the motivating force and the lifeblood of DTOs. Therefore, attacking the financial infrastructure of DTOs has to play a key role in any viable drug enforcement strategy. DEA’s objective with financial investigations is to identify and halt the use of drug proceeds that finance the continued operations of DTOs.

#### *Financial Investigations Strategy*

Since the major DTOs involved in methamphetamine production are also involved in the smuggling of marijuana, heroin, and cocaine, it is virtually impossible to differentiate the source of the

drug money by the type of drug. In the case of methamphetamine, payments to sources of supply are almost exclusively in the form of currency. Thus, financial investigations relating to the movement of funds to Mexico are not classified or segregated by any particular type of drug. However, illicit drug proceeds can be categorized based on how they are used by the DTOs. Drug proceeds are used to pay sources of supply, to support the infrastructure of the organization, and to acquire personal assets. The “cash on hand” left over can be considered as either part of the organization’s working capital or personal wealth.

To significantly reduce the supply of illegal drugs, DEA must focus our efforts on the drug proceeds used to pay the sources of drug supply. Denying the sources of supply revenue from the distribution of drugs will hamper their capability to acquire or produce additional drugs and support their organizations. The higher in the drug distribution chain we can deny the revenue flow, the greater effect this denial will have on the entire distribution network.

Payments to sources of drug supply flow almost exclusively in the form of currency. This currency is handled and transported covertly, just like the drugs that generated it. Thus, the investigation of this component of drug proceeds is a “contraband” investigation, as opposed to an “asset tracing” investigation, which are more traditional money laundering investigations that other agencies are better equipped and more experienced in dealing with than the DEA. DEA, on the other hand, is the best equipped and trained agency to carry out “contraband” investigations. DEA, on the other hand, is well-equipped and trained to carry out “contraband” investigations. Accordingly, DEA “financial investigations” focus on identifying and interdicting those drug proceeds flowing back to the source of drug supply.

In this type of money flow investigation, the financial transactions are also overt acts in the drug conspiracy and, oftentimes, provide the best evidence in linking local drug organizations to their sources of drug supply. Since drug money flows toward the “command and control” of the DTO, as opposed to away from “command and control” like drugs, a money flow investigation enables an investigator to work his/her way up the distribution chain, which is the primary objective of all drug investigations. To ensure maximum effectiveness, DEA money flow investigations are designed to be compatible with, not competitive with, the long-term asset-tracing type investigations that have traditionally been the norm. In fact, whenever DEA is involved in a long-term, asset-tracing type investigation, there is always an agency such as the Internal Revenue Service (IRS) involved as well.

A 2005 DEA study determined that during 2003 and 2004 there were excess U.S. dollars present in Mexico that could not be accounted for from legitimate sources totaling at least \$9.2 billion and \$10.2 billion, respectively. It is estimated that the four major drugs that are smuggled into the United States from Mexico ( i.e. methamphetamine, heroin, cocaine, and marijuana,) generate as much as \$22 billion per year for the sources of supply.

DEA has identified the following as the major money laundering threats relating to movement of drug proceeds to Mexico:

- Bulk currency smuggling to include the transportation organizations that service the Mexican DTOs.
- Mexican currency exchange houses, referred to as Casas de Cambio and Centros Cambiario.
- The remission of drug proceeds through U.S. based money remitters.

To address these threats, DEA has formulated a strategy that encompasses intelligence-based enforcement, as well as domestic and international collaborative efforts to target the movement of bulk currency and ultimately attack the command and control targets in the United States and Mexico. By working closely with our Federal, state, and local law enforcement counterparts in the United States and our counterparts in Mexico, we exploit the intelligence from bulk currency interdictions to identify, target, and ultimately, prosecute the command and control targets on either side of the border.

DEA also works closely with the Treasury Department, Financial Crimes Enforcement Network (FinCEN) and the Office of Foreign Assets Control (OFAC) to identify opportunities to apply regulatory sanctions and freezing orders against these Mexican DTOs. Through enforcement operations, analytical analysis of the Bank Secrecy Act, and other financial records, we identify the movement of drug funds. We also target rogue remitter agencies and agents who are complicit in the movement of drug money to Mexico, through criminal enforcement and asset forfeiture.

To carry out our strategy, DEA, through the Office of Financial Operations, has instituted a number of national initiatives, that target bulk currency smuggling and the remission of drug money through U.S. wire remitters.

In October 2004, DEA instituted the Bulk Currency Initiative. The Bulk Currency Initiative is an information sharing vehicle by which our state and local counterparts can share the information they obtain from making a currency seizure, whether it be along the nation's highways or in operation at an airport. Information obtained by DEA in this manner many times can be tied to other investigations throughout the world. The currency seizure itself then becomes an overt act in the drug conspiracy investigation and often helps to identify other co-conspirators within a DTO that were previously unknown. This initiative resulted in an increase in DEA's currency seizures for FY 2005 of over \$80 million, from \$259 million to \$339.6 million, an increase of 31 percent. This initiative continues, and DEA hopes to see similar results for this fiscal year.

To coordinate multi-jurisdictional bulk currency investigations, DEA's Special Operations Division (SOD) instituted the Money Trail Initiative. In the first year and a half, the Money Trail Initiative was responsible for the dismantlement of six national organizations involved in the transportation of bulk currency drug proceeds from various points in the United States to Mexico. As of July 2006, this initiative has resulted in the arrest of 418 defendants and the seizure of \$65.4 million in United States currency, \$14.5 million in assets, 59.6 metric tons of marijuana, 9.7 metric tons of cocaine, 126.7 kilograms of methamphetamine, 9 kilograms of heroin, 249 vehicles, and 77 weapons. One of these SOD investigations, Operation Choque, resulted in the identification and arrest of Mexican CPOTs Oscar, Miguel, and Luis Arriola-Marquez, and the dismantlement of their organization, which, based on ledgers seized by Mexican authorities, was responsible for the smuggling of at least 14,000 kilos of cocaine into the United States and the smuggling of \$240 million out of the United States. Based on information supplied by DEA, Mexican authorities have seized over \$18 million of the Arriola-Marquez Organization's assets.

### *Domestic efforts*

DEA has 24 Financial Investigation Teams (FITs). These teams are located in each of its 21 domestic field divisions, as well as in our Bogotá and Bangkok Country Offices. Each domestic field division has one FIT located in the same city as its division office, with the exception of the Miami Field Division, whose FIT is located in Ft. Lauderdale, Florida, and the Chicago Field Division, which has two FITs based in Chicago.

The FITs are tasked with carrying out DEA's national financial initiatives, providing guidance to other DEA personnel in financial investigations, conducting the more sophisticated financial investigations, and serving as DEA's local point of contact with the financial community. Administrator Tandy has mandated that all DEA investigations include a financial investigation. The FITs are not expected to conduct all DEA financial investigations. However, they do provide guidance, when needed, to other DEA investigators on their financial investigations.

DEA has assigned 159 Special Agents, 8 Intelligence Research Analysts, and 3 DIs to the FIT Teams, which averages 7 Special Agents per FIT. With the exception of the Washington D.C. and San Francisco Field Divisions, each FIT is multi-agency, with participation requested and encouraged from Federal, state and local agencies. Current participation by outside agencies is as follows:

- IRS-Criminal Investigation: 12 full time and 4 part time Special Agents
- ICE: 4 full time and 2 part time Special Agents
- FBI: 1 full time Special Agent
- U.S. Postal Inspection Service: 2 part time Postal Inspectors
- National Guard: 3 full time Analysts
- Financial Investigative Contractors: 24 full time and 5 part time
- State & local Police Officers: 63 full time and 5 part time

The Special Agents, Postal Inspectors and Police Officers from these outside agencies conduct drug-related financial investigations jointly with their DEA counterparts. This team effort brings the specialized expertise and jurisdictions of their parent agencies to the table, where all participants have the same access to the DEA databases as their DEA counterparts.

In addition to the FITs, DEA has a number of Special Agent personnel assigned to liaison positions within the Intelligence Community, Department of Defense and the Executive Office of the President (ONDCP) who enhance our ability to conduct financial investigations. These Special Agents have sign-on authority to the databases maintained by these agencies that they need to perform their liaison duties. In addition, DEA has a limited number of Special Agents assigned to other law enforcement agencies. These agents have direct sign-on authority to the databases of the agencies to which they are assigned. One example of this is the ICE-led El Dorado Task Force in New York, where DEA has a full enforcement group assigned.

### *International Challenges*

Within the United States, regulators and law enforcement have a fairly accurate overview of financial transactions. Particularly after the additional tools provided by the USA PATRIOT Act came into force, law enforcement generally has access to the information it needs to identify and thwart significant money laundering efforts within the United States. However, this same transparency is not present in many other countries, including Mexico. Accordingly, DEA believes that most drug proceeds are now smuggled out of the United States to Mexico in bulk, rather than inserted into the financial system within the United States.

Because of the lack of transparency of their financial system, the Mexican financial services industry continues to be a facilitator for drug money movement. Although it is a sophisticated financial sector, obtaining financial information from the Mexican financial services industry remains difficult.

However, based on intelligence information from various DEA, ICE, and other United States law enforcement operations, we do know that once bulk currency is delivered to its intended recipients in Mexico, it can take a number of paths. Most commonly, bulk currency is deposited into the Mexican banking system through casas de cambio, centros cambiarios and banks, and then repatriated to the U.S. banking system through correspondent banking and bank note sales to United States institutions. While some of the bulk cash can be used to purchase precursors and equipment for methamphetamine manufacture, it also can be infused into the financial system through Mexican front companies or used to purchase real estate, businesses and other luxury assets in Mexico. In some instances, the bulk cash is converted to larger denominated United States dollars at casas de cambio or centros cambiarios for further smuggling to Colombia or for further smuggling to Panama for delivery to the Panama Free Trade Zone to purchase commodities on behalf of Colombian businesses. The combination of widespread corruption within Mexico, coupled with insufficient regulatory and criminal enforcement, makes disguising and moving drug proceeds in Mexico a relatively safe and simple task.

As part of our strategy to employ regulatory measures against money laundering systems that facilitate drug money laundering, DEA works closely with the FinCEN and other law enforcement agencies. DEA provided information to support the issuance of FinCEN's April 2006 Advisory to all United States financial institutions on the smuggling of bulk cash and the role of Mexican casas de cambio in the repatriation of those drug dollars into the United States banking system. DEA enjoys a very close working relationship with the OFAC. Much of the information used by OFAC to support its designations under the Kingpin and Specially Designated Narcotics Trafficker authorities is provided by DEA.

## CONCLUSION

DEA continues to fight methamphetamine on all fronts, by targeting both the trafficking organizations and the financial proceeds they generate. As the international threat of methamphetamine spreads, cooperative efforts among agencies and nations become even more vital. Cooperative efforts and initiatives to combat methamphetamine production and control chemical shipments on an international scale are critical to DEA's ability to combat methamphetamine trafficking in the United States.

The *Synthetics Drug Control Strategy* provides DEA and contributing agencies a framework to continue the ongoing efforts and chart new strategies to achieve domestic and international progress against methamphetamine and other synthetic drug trafficking and abuse. DEA's core competency, the disruption and dismantlement of drug trafficking organizations impacting the United States, is an integral component to *Synthetics Drug Control Strategy*.

Thank you for the opportunity to appear before you today to discuss this important issue. I will be happy to answer any questions that you may have.