

**BREAKING THE METHAMPHETAMINE SUPPLY
CHAIN: MEETING CHALLENGES AT THE BORDER**

HEARING
BEFORE THE
COMMITTEE ON FINANCE
UNITED STATES SENATE
ONE HUNDRED TENTH CONGRESS
FIRST SESSION

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SEPTEMBER 18, 2007
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CONTENTS

OPENING STATEMENTS

	Page
Baucus, Hon. Max, a U.S. Senator from Montana, chairman, Committee on Finance	1
Grassley, Hon. Chuck, a U.S. Senator from Iowa	2

WITNESSES

Siebel, Thomas M., chairman, Meth Project, Palo Alto, CA	5
Wolfram, Peter D., president and chief executive officer, Bungalow Drug Inc., Belgrade, MT	7
Kendell, Gary W., director, Iowa Governor's Office of Drug Control Policy, Des Moines, IA	9
Rannazzisi, Joseph T., Deputy Assistant Administrator, Office of Diversion Control, Drug Enforcement Administration, Washington, DC	11
McC Campbell, Christy A., Deputy Assistant Secretary, Bureau of International Narcotics and Law Enforcement Affairs, Department of State, Washington, DC	13
Allen, Matthew C., Deputy Assistant Director, Office of Investigations, Immigration and Customs Enforcement, Department of Homeland Security, Washington, DC	15

ALPHABETICAL LISTING AND APPENDIX MATERIAL

Allen, Matthew C.:	
Testimony	15
Prepared statement with attachments	29
Responses to questions from committee members	43
Baucus, Hon. Max:	
Opening statement	1
Crapo, Hon. Mike:	
Prepared statement	50
Grassley, Hon. Chuck:	
Opening statement	2
Kendell, Gary W.:	
Testimony	9
Prepared statement with attachments	52
Responses to questions from committee members, with attachment	68
Kyl, Hon. Jon:	
Prepared statement	84
McC Campbell, Christy A.:	
Testimony	13
Prepared statement	86
Responses to questions from committee members	96
Rannazzisi, Joseph T.:	
Testimony	11
Prepared statement	103
Responses to questions from committee members	114
Roberts, Hon. Pat:	
Prepared statement	124
Salazar, Hon. Ken:	
Prepared statement	125

IV

	Page
Siebel, Thomas M.:	
Testimony	5
Prepared statement with attachments	126
Responses to questions from committee members	138
Wolfgram, Peter D.:	
Testimony	7
Prepared statement	147
Responses to questions from committee members	153
COMMUNICATION	
McNeil Consumer Healthcare	157

**BREAKING THE METHAMPHETAMINE
SUPPLY CHAIN: MEETING
CHALLENGES AT THE BORDER**

TUESDAY, SEPTEMBER 18, 2007

U.S. SENATE,
COMMITTEE ON FINANCE,
Washington, DC.

The hearing was convened, pursuant to notice, at 10:05 a.m., in room SD-215, Dirksen Senate Office Building, Hon. Max Baucus (chairman of the committee) presiding.

Present: Senators Bingaman, Salazar, Grassley, Crapo, and Roberts.

**OPENING STATEMENT OF HON. MAX BAUCUS, A U.S. SENATOR
FROM MONTANA, CHAIRMAN, COMMITTEE ON FINANCE**

The CHAIRMAN. The hearing will come to order.

Abraham Lincoln said, "Always bear in mind that your own resolution to succeed is more important than any one thing." Lincoln's words apply in so many areas, in so many ways, especially to the fight to get rid of methamphetamine.

In my own State of Montana, I have seen methamphetamine ruin lives, destroy families. Montana State law enforcement and child protective agencies are struggling to keep up with the influx of drug-endangered children. A majority of the Montana foster care placements are meth-related.

In the fight against meth, our resolution to succeed is so important. It is one year after enactment of the Combat Methamphetamine Epidemic Act, and there is evidence that we are making progress. The Combat Meth Act imposed limits on the sale of medicines containing ephedrine and pseudoephedrine. Those are the most common chemicals that can be converted into meth. The Act required that purchasers provide identification and sign a sales log.

Starting last year, retail sellers have been required to keep these products behind the counter or in locked cases, and retailers have had to register online. Partly as a result, last year meth lab seizures declined 42 percent nationwide. The Combat Meth Act is disrupting supply, and I am proud to have co-sponsored the law. We now must do more.

I might say that our first witness, Mr. Tom Siebel, will, I am sure, explain the efforts that Montana has undertaken, and especially he has undertaken, in a very dramatic way, focused primarily on teens, to reduce first-time use of methamphetamine. We

do think in our State, thanks largely to Mr. Siebel and his efforts, that we are making some progress.

Meth, however, is still the number-one law enforcement problem in the Nation. The National Association of Counties found that meth is the number-one illegal drug problem for 47 percent of the counties in the country; 21 percent said cocaine, 22 percent said marijuana. More counties cited meth than cocaine and marijuana combined.

Four out of five county sheriffs report that local meth production is down, but meth abuse is not. Half of the Nation's sheriffs report that the abuse of the drug has stayed the same, and nearly a third say it has increased.

Meth users are changing. Three-fifths of the Nation's sheriffs report increased meth use by women, and half the Nation's sheriffs report increased use by teens. According to a Methamphetamine in Montana 2007 report, half of the adults in Montana prisons are there because of a meth-related crime. Meth is still far too readily available.

Last September, this committee heard testimony on the significant reduction in the number of local mom-and-pop meth labs, and that was because of restrictions on the sale of products containing ephedrine and pseudoephedrine. Today we will continue our conversation about meth education, meth prevention, and compliance with requirements to keep meth precursors behind the counter.

But now an estimated 80 percent of meth consumed in the United States originates in Mexico. It is smuggled in. So today we will hear how Federal, State, and local law enforcement are collaborating to shut down meth smuggling at the border, and we will hear of efforts to control the legally produced chemicals that are used for meth production.

The fight against meth is not over. We need to continue meth education, prevention, and treatment, and we need to redouble our resolve to break the meth supply chain at the border. In the battle against meth, we must maintain our resolution to succeed. That resolution remains vitally important, and, with that resolution, let us bring to an end the problem of methamphetamine.

Senator Grassley?

**OPENING STATEMENT OF HON. CHUCK GRASSLEY,
A U.S. SENATOR FROM IOWA**

Senator GRASSLEY. Thank you all for joining us today as we continue to discuss methamphetamine and the problems associated with this terrible drug. For years, we have heard countless stories of individuals impacted by meth, either as users or members of the larger community tasked with repairing the damage meth use inflicts on our society. In addition to the immediate impact of meth use on families and particularly children, it also strains the resources of the multitude of government agencies forced to respond. Agencies, ranging from those charged with caring for the children of meth addicts to those who enforce the law, continue to spend significant resources, and by resources I mean taxpayer dollars, responding to the production and use of meth.

The terrible stories of meth use are all too real, and, as a Senator from a rural state, I can attest to the disproportionate impact the

meth problem has had on rural America, and to the impact it is having and will have on the rest of the country as meth use continues to spread.

That said, we have had some success in the last few years in reducing the domestic supply of meth. For example, the Combat Methamphetamine Act (Combat Meth Act) passed by Congress just a few years ago, has made a real difference by restricting the sale of the precursor chemicals used to manufacture meth and cutting off the supply of pseudoephedrine or PSE, the main active ingredient in meth.

The Combat Meth Act gave new Federal tools to prosecutors to get meth cooks and traffickers off our streets. It provided vital resources to State and local law enforcement officials who are on the front lines fighting the meth problem. Finally, it provided funding for the families and children affected by meth.

These new tools have paid off. Since Combat Meth, we have seen a dramatic decrease in the number of clandestine meth labs and large “super labs” across the country. Pharmacies and retail stores have moved products containing PSE behind the counter, and purchasers are now required to show photo identification and sign a log book to purchase these products.

In Iowa, this has proven to be particularly effective. Meth lab incidents have decreased from about 1500 in 2004 when the Iowa PSE law went into effect to just 89 through July 31st of this year. While this is significant progress, it does not mean our meth problem has been eliminated or that we should be lulled into a false sense of security. In fact, a recent National Association of Counties survey stated that almost half of all county sheriffs surveyed said that meth continues to be the number one drug problem. What is clear is that, while Combat Meth has made an impact, we must remain vigilant in the fight against meth and examine areas where the Combat Meth Act can be improved upon.

For instance, one area that can be improved is updating the logbook requirements to allow for electronic records for more effective monitoring of PSE sales.

Currently, the Combat Meth Act only requires retailers to keep paper records that are time-consuming for law enforcement to search through. That has led to a phenomenon known as “smurfing,” where meth cooks visit multiple stores or provide false information to obtain enough PSE to make meth.

Recently, I have joined Senator Durbin to close this “smurfing” loophole. The Methamphetamine Production Prevention Act of 2007 would amend the Combat Meth Act to allow for electronic logbook systems, and create a Federal grant program for States looking to create or enhance existing electronic logbook systems.

Furthermore, we need to make sure that, when we close one door for meth production, we do not open another. In fact, one of the biggest problems with meth today is the importation of high quality foreign meth produced outside our country and smuggled over our borders.

There have been countless reports about international drug trafficking cartels producing meth and transporting it into the United States. Further, we are hearing from law enforcement that this foreign meth is stronger and more potent than domestically produced

meth, leading to increased overdoses and deaths. I am concerned that this new stronger meth is now on our streets filling the void created by the successes of shutting down domestic meth production.

For instance, it is currently estimated that over 80 percent of the meth on the streets of Iowa comes from Mexico, where it is being produced in super labs controlled by the Mexican drug cartels. One disturbing example from my State was a recent bust in Des Moines, IA. This bust occurred as part of an Organized Crime Drug Enforcement Task Force sting operation where 17 illegal immigrants from Mexico were recently caught with over 20 pounds of meth and over \$500,000 in cash.

We know from experience that these cartels are ruthless and will stop at nothing to push their deadly products onto U.S. streets. This bust is just further evidence that meth is coming in from our borders, and, if they are getting it to Iowa, they are getting it to the rest of the country. This is the new face of meth in America.

To address this growing concern, we have witnesses here today who will discuss what we are doing at our borders to stop meth from getting in. I am interested to hear what they have to say and whether they believe there is more Congress needs to do to address the problems of foreign-produced meth.

For years we have dealt with the problem of drugs being imported across our southern border, but I want to be sure that we are using all our resources to effectively fight the trafficking of foreign meth. Further, I want to make sure that the administration is doing everything within its diplomatic powers to work with foreign governments to stop this deadly drug from being produced. President Calderon has been very tough on the drug traffickers since taking office, sending Mexican military and police officers into key areas of the country to combat the drug cartels. I strongly encourage the administration to provide Congress with the details of the U.S.-Mexico counter-narcotics agreement as soon as possible. We must keep the pressure on the cartels from all fronts.

I also look forward to the testimony of Gary Kendell, who is the director of the Iowa Governor's Office of Drug Control Policy. I want to thank Mr. Kendell for taking the time to tell us about the effects of meth and the Combat Meth Act in Iowa.

So, we have a lot of interesting testimony that will be presented to us today. Thank you all for joining us, and thank you, Chairman Baucus, for holding this important hearing.

The CHAIRMAN. Thanks, Senator Grassley.

I would now like to introduce our witnesses. It is my pleasure to introduce Mr. Tom Siebel, chairman of the Meth Project in Palo Alto, CA and founder of the Montana Meth Project in Missoula, MT.

The Montana Meth Project and its hard-hitting media campaign make a real difference in my home State, and I wish everybody here could see it. I see many of the witnesses nodding; I think they have seen it, and I think they will probably agree that, if we could have that nationwide, I think it would have some effect.

They deserve much credit for the positive shift, those ads do, and attitudes and behavior about meth, at least in my home State. I

commend Mr. Siebel for that effort. Arizona, Idaho, and Illinois also have Meth Projects.

We will next hear from Peter Wolfgram. Thank you, Peter, for making the trip. He is president and chief executive officer of Bungalow Drug in Belgrade, MT. He will testify on behalf of the National Association of Chain Drugstores. He also will talk about compliance with requirements to keep pseudoephedrine products behind the counter. Thanks again for making the trip.

Following Mr. Wolfgram, we will hear from Gary Kendell, director of the Iowa Governor's Office of Drug Control Policy, from Des Moines, IA. He will talk about how the Combat Methamphetamine Act has had an impact in his home State.

Then we have Joseph Rannazzisi, Deputy Assistant Administrator at the Drug Enforcement Administration. He will speak about meth law enforcement developments and the interesting diversion of precursor chemicals.

Next, Christy McCampbell. She is the Deputy Assistant Secretary at the State Department's Bureau of International Narcotics and Law Enforcement Affairs, and she will discuss international drug control conventions and trade in meth precursor chemicals.

Finally, Matthew Allen, Deputy Assistant Director of the Office of Investigations at Immigrations and Customs Enforcement. He will discuss a recently completed bilateral strategic plan for the United States and Mexico to expand their cooperation in law enforcement, trade, and border management.

Thank you all for coming, and I would ask all witnesses to summarize their statements in 5 minutes. Their full statements will automatically be included in the record.

Mr. Siebel, you are first.

**STATEMENT OF THOMAS M. SIEBEL, CHAIRMAN,
METH PROJECT, PALO ALTO, CA**

Mr. SIEBEL. Thank you, Mr. Chairman, Senator Grassley, members of the committee. My name is Tom Siebel, and I am a businessman. I am also chairman of the Montana Meth Project, a non-profit organization dedicated to reducing meth use through public service messaging, public policy, and community outreach. I thank you for the opportunity to address you this morning.

We started the Montana Meth Project in 2005 with the objective of significantly reducing methamphetamine use in the State of Montana. Now, let me remind you, as of September of 2005, Montana was overwhelmed with methamphetamine use.

A few statistics: Montana ranked number five in the Nation in terms of methamphetamine abuse, according to the Quest research data. The Montana Attorney General's Office reported at that time that 50 percent of the people in the prison system were there due to methamphetamine, and 50 percent of the children in foster care were there due to methamphetamine.

Now, beginning in 2005, we commissioned relatively extensive market research on meth-related attitudes and behavior in the State of Montana. These research results were used as the basis for designing a broad-based public outreach campaign.

From September of 2005 through today, September of 2007, the Meth Project has sustained a large-scale, privately funded State-

wide advertising campaign including TV, radio, print, display, billboards, and the Internet. Throughout this entire period of time, we have been the largest advertiser in the State of Montana. This paid campaign included 45,000 television advertisements, 35,000 radio ads, 10,000 print impressions, and 1,000 billboards around the State.

In the past 2 years, the Montana Meth Project has received 40 advertising industry awards for the quality and effectiveness of this advertising. These awards include two Effie Awards, 25 Addy Awards, an award at the Cannes Film Festival for one of the most successful campaigns, really, in the world, and numerous times our ads have been listed in the "Top 10" ads in America for effectiveness.

Central to the program is a research-based marketing campaign that realistically and graphically communicates the risks of meth. The campaign's core message, "not even once," speaks to the addictiveness of this problem.

Now, our ongoing survey results from 2005 to 2007 tracked a very large shift in attitudes in young people in the State of Montana. As of today, 74 percent of young people in Montana report seeing anti-meth ads more than once a week. That compares, by the way, with 17 percent of young people nationally. These are teens, aged 12 to 17 years old.

Eighty-four percent of young people in Montana see significant risk in even giving meth a try. This compares with 66 percent of young people across the Nation. Eighty-seven percent—gentlemen, 87 percent—of young people in Montana now strongly disapprove of trying meth, and 79 percent of young people in the State believe that their friends would give them a hard time if they gave it a try, so we are stigmatizing use.

At the same time, while much has been done to deal with precursor control and whatnot, 33 percent of the young people in Montana today report that meth is easily available. That is a greater number than the national number.

Now, from 2005 to 2007, the rate of teen meth abuse across the United States remained essentially unchanged. This data was just published by the National Survey on Drug Use and Health released by the Department of Health and Human Services this month. Over the same period of time, from 2005 to 2007, meth use in Montana declined, and it declined dramatically.

The results have been very significant. As of September of 2007, Montana now ranks 39th in meth abuse in the United States. That is down from 5th 2 years ago. This is according to Quest Diagnostic's Workplace Drug Testing report.

Adult meth abuse in the State of Montana in the last 2 years has dropped by 70 percent. Let me compare this with neighboring States that have the same sort of precursor control: South Dakota, during the same period of time, meth abuse increased 7.7 percent. Wyoming, the same period of time, meth abuse increased 6 percent. So there is something different going on in Montana.

The Montana Department of Justice reports that meth-related crimes have decreased by 53 percent in the past 2 years, and the Center for Disease Control and the Montana Office of Public In-

struction will announce this afternoon that teen meth use in Montana has declined dramatically in the last 2 years.

According to the Attorney General of the State of Montana, "The Meth Project is simply changing the nature of crime control in Montana. As of 2005, the Montana criminal justice system was overwhelmed by the consequences of meth. If we are able to continue to make the progress we have seen in the past 2 years, methamphetamine will have changed from a crisis to a manageable problem."

The CHAIRMAN. I am going to have to ask you to summarize.

Mr. SIEBEL. All right. We are now replicating the project in Arizona, Idaho, and Illinois.

So, in conclusion, Montana has a problem very similar to the rest of the country. I respectfully submit that the people of the United States would be well-served if the Congress would consider providing funding to extend the Meth Project to other States.

I commend the committee for continuing to shed light on this dark issue. We want to particularly thank Chairman Baucus and his staff for their leadership in driving methamphetamine from the State of Montana. We also want to thank Director Walters and the staff of the Office of National Drug Control Policy (ONDCP) for assisting us in what we have been doing.

The CHAIRMAN. Thank you, Mr. Siebel, very much. It is quite a success story, and we are all very proud of your contribution and your help.

[The prepared statement of Mr. Siebel appears in the appendix.]

The CHAIRMAN. Mr. Wolfgram?

STATEMENT OF PETER D. WOLFGRAM, PRESIDENT AND CHIEF EXECUTIVE OFFICER, BUNGALOW DRUG INC., BELGRADE, MT

Mr. WOLFGRAM. The National Association of Chain Drugstores appreciates the opportunity to testify before the Senate Finance Committee to share our perspectives on meth production and retailer compliance with State and Federal pseudoephedrine sales restrictions. Thank you, Senator Baucus and members of the committee, for inviting me to speak today.

I am Peter Wolfgram, president and CEO of Bungalow Drug, based in Belgrade, MT. Bungalow Drug is a family-owned home town pharmacy chain, and I have been a practicing pharmacist since 1972. My family has resided in the Bozeman area since 1974, and I have worked as a pharmacist for both chain and independent pharmacies.

We purchased Bungalow Drug in 1989, and since that time we have owned up to five pharmacies and a card and gift store. We currently have three locations, employ 24 people, including 8 full- and part-time pharmacists. We provide pharmacy services for approximately 3,000 people in both urban and rural areas of Montana: Driscoll Drug in Butte, Castle Mountain Drug in White Sulphur Springs, and Townsend Drug in Townsend.

My company has been a member of the NACDS since 2002. The NACDS represents the Nation's leading retail chain pharmacies and suppliers, helping our members better meet the challenge of serving their customers. NACDS members operate more than 35,000 pharmacies, employ 108,000 pharmacists, fill over 2.3 bil-

lion prescriptions yearly, and have annual sales of over \$700 billion. Other members include a thousand suppliers of products and services to the chain drug industry.

Our membership is deeply concerned about the problem of meth production and abuse and has worked to develop solutions to this devastating problem. Even before the introduction of State and Federal legislation, a majority of the chain and community pharmacies had taken proactive steps to reduce theft and illegitimate use of meth precursors, that is, products containing pseudoephedrine or ephedrine.

We took these steps because we understand the importance of addressing the meth problem, despite the potential that instituting access barriers to these products may have led to complaints and reductions in sales.

NACDS member companies placed these products behind pharmacy or sales counters, limited access to these products in their stores, initiated voluntary sales limits, participated in voluntary education such as Meth Watch, voluntarily eliminated consumer self-access to PSE products in their stores in those geographic areas where meth abuse has been a problem. We participated in youth anti-meth education efforts, and we educated our employees about the meth abuse to prevent questionable sales of these products. Lastly, we worked with our local law enforcement by reporting suspicious activity.

Moreover, our members have worked closely with the Drug Enforcement Administration and State and local law enforcement since 1995 to stem the tide of meth production in communities across the United States. Before the Federal Government passed legislation, many States acted on their own to address the meth problem. The Montana legislature acted in 2005 to pass legislation that has had a significant impact on meth production in my State.

I testified on behalf of this legislation, S. 287, which is similar to the Federal Combat Methamphetamine Epidemic Act. There is a nine-gram-per-30-day limit. The purchaser must show photo ID and sign a log book, and PSE products must be placed behind the counter.

The number of meth labs in Montana is on the decline, as we were hearing is the trend across the country. In 2004, Montana law enforcement seized 64 labs, while in 2006, only 16. The Combat Methamphetamine Act expanded on the differing State requirements to create a national standard for retailers to follow for limiting access to meth precursors.

NACDS worked closely with Congress in drafting the Combat Methamphetamine Act in the last Congress, and we appreciate your willingness to continue this excellent working relationship. We also commend this committee for continuing the congressional focus on this troubling issue surrounding meth production and its importation.

One national standard for retail availability is important, because a patchwork of requirements is confusing to consumers, law enforcement, and retailers. For chain pharmacies which operate in practically every State, city, town, and county in this country, it is complex and costly to create and update different policies, procedures, and employee training programs for each pharmacy outlet.

The Combat Methamphetamine Act has become a national standard for retail availability of meth precursors. This has streamlined our members' operations and has allowed for quicker and better compliance nationwide. We believe the Combat Methamphetamine Act is helping to significantly reduce domestic production, that is, the numerous mom-and-pop meth labs that have become the scourge of rural America.

Across the U.S., DEA recorded over 17,000 meth lab incidents in 2004; by 2006, this number had dropped to just over 7,000. Now that the domestic meth production problem is being addressed, we support the congressional efforts to focus more keenly on eradicating meth importation.

With the recent steep decline in domestic meth production, the availability of foreign meth sources is filling the void. Despite the success of the Combat Methamphetamine Act in working to eliminate domestic lab production, far too many people remain locked in this deadly addiction.

Compliance with the Combat Methamphetamine Act was challenging for the chain pharmacy industry. We had to train our employees to the requirements of the Act, and we had to certify with the DEA that we completed such training and received acknowledgement from the DEA that each pharmacy location had been certified.

The DEA provided us with final rules only 2 weeks before the compliance deadline. Though it was not seriously difficult for my pharmacies to comply within the 2-week timeframe, I understand that some of my larger pharmacy chain colleagues had difficulty coordinating internal efforts to comply with the deadline.

The CHAIRMAN. I am going to have to ask you to summarize, please, Mr. Wolfgram.

Mr. WOLFGRAM. However, we thank the DEA for their help.

Before I conclude my remarks, I would like to add that many manufacturers have reformulated their products to replace pseudoephedrine. A comprehensive approach is necessary to effectively address the meth problem, although State legislatures and Congress have passed comprehensive legislation that has sharply reduced domestic meth production.

The problems of meth importation, use, and addiction are still with us. We urge this committee to take the appropriate measures to stem the flow of meth from abroad, and we will continue to work with Congress to help curb the illicit use.

The CHAIRMAN. All right. Thank you very much, Mr. Wolfgram.

[The prepared statement of Mr. Wolfgram appears in the appendix.]

The CHAIRMAN. Mr. Kendell?

STATEMENT OF GARY W. KENDELL, DIRECTOR, IOWA GOVERNOR'S OFFICE OF DRUG CONTROL POLICY, DES MOINES, IA

Mr. KENDELL. Mr. Chairman, Ranking Member, members of the committee, I appreciate the opportunity to be here this morning and speak with you about what is happening in Iowa with regard to methamphetamine.

The number of methamphetamine labs seized by law enforcement in Iowa reached its peak in 2004, with an average of 125 methamphetamine labs seized by law enforcement each month.

With the passage of pseudoephedrine controls, first on the State level and then on the Federal level with the Combat Methamphetamine Epidemic Act, the fever finally broke with regard to domestic production of methamphetamine in Iowa.

The decline continues in 2007, with a year-to-date average of about 12 meth labs per month that are being seized currently. This is certainly something to celebrate and be happy for in Iowa, but the problem remains. Twelve a month is still too many meth labs, in my opinion, and we continue to work to try to reduce those further.

We have had significant reductions in the number of methamphetamine-related child abuse and endangerment cases. We have had significant reductions in the amount of money—public money—expended by the University of Iowa Hospital's burn unit for burns associated with meth production.

It is also important to note the almost incalculable benefit to the environment from the reduced damage caused by these methamphetamine labs, keeping in mind that for every pound of methamphetamine manufactured, 5 to 7 pounds of hazardous waste is also produced.

According to the Substance Abuse & Mental Health Services Administration, Iowa still ranks third in the United States in treatment admissions for methamphetamine per 100,000 population. In addition, we rank 8th in the United States for overall admissions for treatment for methamphetamine.

We continue to pursue additional measures to help further reduce meth labs in our State. Earlier this year, with congressionally directed funding, we successfully completed a program where we locked up the anhydrous ammonia tanks in all 99 Iowa counties.

Scientists at Iowa State University in Ames, IA have developed a chemical lock using calcium nitrate, which, when added to anhydrous ammonia, basically renders it useless in the production of methamphetamine. We are in the process of exploring and trying to identify funding for this program which would allow us widespread implementation of this very valuable tool.

Finally, we are working on the State level to achieve passage of legislation that would allow us to implement a real-time electronic tracking system for the pseudoephedrine sales which would help to reduce the loophole that Senator Grassley referred to in his remarks, where we have the smurfing going on in Iowa now, where they go from pharmacy to pharmacy, buying their limit at each pharmacy until they have a sufficient quantity to make their cook. That is something that we will continue to push for on the State level.

In addition, due to the reduction in domestic production, we are now faced with the reality that 90 to 95 percent, probably, of the methamphetamine in Iowa is coming from the southwestern United States and Mexico, and it is all primarily ice at this point. The crackdown on domestic labs led the trafficking organizations to step right in and fill that demand, so by no means has our meth problem gone away.

The ice being seized in Iowa is averaging approximately 42 percent purity, with some large seizures in the 90-plus percent purity range. In Des Moines, IA, an ounce of ice is selling for approximately \$1,200. In Fort Dodge, IA, with a population of about 25,000 people, an ounce of ice will sell for \$900. So, we have essentially a wholesale market in Iowa. There is plenty of it for everyone.

I am so thankful for the efforts of the Senate and the House of Representatives to fund programs for State and local law enforcement, and drug enforcement specifically. I know many of you and your colleagues recognize the importance of these programs and do everything you can to fund them at the level absolutely possible.

These funding streams are vital to drug enforcement efforts on the State and local level, which directly impact drug enforcement on the Federal level. I want to take this opportunity to encourage you and your colleagues to fully fund programs like this, Byrne Justice Assistance Grants (Byrne-JAG) and Community Oriented Policing Services (COPS), to name two.

An excellent example was mentioned by Senator Grassley also of the cooperation between State, local, and Federal law enforcement, and that is Operation Ice Age, which was just recently announced by the U.S. Attorney for the Southern District of Iowa. It involved 22 individuals who were indicted for methamphetamine trafficking in Des Moines, IA.

Methamphetamine is a national problem in the United States, but some of the best and most likely success that we can have is through local and State implementation of successful prevention programs like we have heard about and treatment that works, but also State and local law enforcement and fully funding Federal programs that help them to do their jobs to help the Federal authorities as well.

Thank you for allowing me to speak to you this morning. Thank you for your attempts to provide as much funding as you can for local and State law enforcement. I thank you for your service to the country.

The CHAIRMAN. Thank you, Mr. Kendell.

[The prepared statement of Mr. Kendell appears in the appendix.]

The CHAIRMAN. Mr. Rannazzisi?

STATEMENT OF JOSEPH T. RANNAZZISI, DEPUTY ASSISTANT ADMINISTRATOR, OFFICE OF DIVERSION CONTROL, DRUG ENFORCEMENT ADMINISTRATION, WASHINGTON, DC

Mr. RANNAZZISI. Good morning, sir. Chairman Baucus, Ranking Member Grassley, and distinguished members of the committee, on behalf of DEA Administrator Karen P. Tandy, thank you for the opportunity to testify today on the domestic and international methamphetamine situation and DEA's role in enforcing the Combat Methamphetamine Epidemic Act.

Through our law enforcement partnerships across the country and around the world, DEA is aggressively attacking drug organizations responsible for trafficking methamphetamine and its precursor chemicals and seizing their illicit proceeds.

Methamphetamine consumed in the U.S. originates from two sources. Most is produced by Mexico and California-based Mexican traffickers whose organizations control super-labs. The majority of methamphetamine used in the United States comes from these larger labs, which we believe are increasingly operating in Mexico.

The second source of methamphetamine is small toxic labs that produce relatively small amounts and are not generally affiliated with major trafficking organizations. Last year at this time, small toxic labs were responsible for about 20 percent of the methamphetamine consumed in America.

However, with the passage of State legislation and then the Combat Methamphetamine Epidemic Act, DEA has seen a significant decline in the number of clandestine labs across the U.S. It has been through the framework provided by the administration's 2006 Synthetic Drugs Strategy that DEA and contributing agencies have been able to chart these milestones in achieving domestic and international progress against methamphetamine and other synthetic drugs.

One goal of the strategy was to reduce the number of domestic methamphetamine labs by 25 percent over 3 years. We have exceeded this goal, with a 41-percent reduction in 2006 from the previous year. This has resulted in fewer children exposed to lab hazards, a reduction in toxic waste sites, and increased availability of law enforcement resources previously dedicated to clandestine lab investigations.

Methamphetamine is unique because the production of the drug requires no specialized skill or training, and its recipes are readily available on the Internet. The precursor chemicals associated with this drug also have historically been easy to obtain and inexpensive to purchase. These factors contributed to methamphetamine's rapid sweep across our Nation.

In March 2006, to combat the devastating national impact of methamphetamine's manufacture, Congress enacted the CMEA. The Act established a system to monitor and regulate the importation, production, and retail sales of non-prescription ephedrine, pseudoephedrine, and phenylpropanolamine products, common ingredients found in over-the-counter cough, cold, and allergy products.

These chemicals and drugs are key precursors used in illicit manufacture of methamphetamine or amphetamine. This legislation provided law enforcement and regulators with invaluable tools to contain the production of methamphetamine.

These tools allow law enforcement to make an impact on domestic methamphetamine production; however, law enforcement faces challenges with some areas of the CMEA's implementation. First, there is an inability to completely examine all entries relative to the retail logbook purchases requirement provision. This is largely due to the lack of connectivity between reporting elements, both intrastate and interstate.

Second, despite an extensive public awareness campaign, it is difficult to identify and to ensure that all sellers of pseudoephedrine and ephedrine products are complying with the self-certification process mandated by the CMEA. While Federal and State legislation has reduced the number of clandestine laboratories,

methamphetamine abuse continues unabated and poses a significant threat to citizens.

A recent survey conducted by the National Association of counties showed that more teens, women, and minorities are abusing the drug. This trend is worrisome, as it shows that methamphetamine abuse is spreading to a wider range of people.

To stop the organizations responsible for this menace, DEA is successfully disrupting and dismantling significant methamphetamine trafficking organizations. DEA is fighting the diversion of ephedrine and pseudoephedrine, both through enforcement operations and international agreements.

Our continued work with our international partners to identify suspicious shipments of precursor chemicals has been both rewarding and challenging. DEA is working shoulder-to-shoulder with the Government of Mexico to address the illicit manufacture and shipments of methamphetamine into the U.S.

Since last year, the Government of Mexico has taken steps to enact new controls to better control imported methamphetamine precursor chemicals. DEA is also extensively training Mexican law enforcement and regulatory counterparts, as well as personnel, from several other countries.

DEA will continue to fight methamphetamine by targeting large-scale drug trafficking organizations and depriving them of drug proceeds, their lifeblood. We are fully committed to meeting international threats by working cooperatively with our foreign and domestic counterparts.

Thank you, sir. I would be happy to answer any of your questions.

The CHAIRMAN. Very good. You are right on time. Thank you.

[The prepared statement of Mr. Rannazzisi appears in the appendix.]

The CHAIRMAN. Ms. McCampbell?

STATEMENT OF CHRISTY A. McCAMPBELL, DEPUTY ASSISTANT SECRETARY, BUREAU OF INTERNATIONAL NARCOTICS AND LAW ENFORCEMENT AFFAIRS, DEPARTMENT OF STATE, WASHINGTON, DC

Ms. McCAMPBELL. Yes. Thank you, Chairman Baucus, Senator Grassley, and other members for the opportunity to speak to you here today on behalf of the State Department's bureau of International Narcotics and Law Enforcement Affairs.

I have to say that the production, trafficking, and abuse of meth have been areas of particular interest to me because formerly, before I came here to Washington, I was the chief of the Bureau of Narcotics Enforcement for the State of California.

I spent a great deal of time as a law enforcement officer out in the field, seeing what methamphetamine did to the neglect of little kids, seeing what it did to our law enforcement officers, and seeing what it did to our environment as I watched mounds of the residual effects of methamphetamine going down the rivers while the cows were drinking the water right out of the streams in Fresno, CA.

Therefore, when I came to INL last year I was pleased that then-Assistant Secretary Anne Patterson asked me to come to the de-

partment to work on the efforts to curb the international production and trafficking of meth.

Synthetic drugs such as meth present a unique challenge to law enforcement here. The production of meth is not tied to any specific geographic area like cocaine and heroin is, so confronting the spread requires broad international cooperation. The effort is further complicated in that the chemicals used to produce meth—ephedrine and pseudoephedrine—can be legitimate pharmaceutical products traded throughout the world.

The State Department plays a key role in ensuring that these products are not diverted from legitimate international trade by working through the multilateral institutions such as the United Nations, such as the International Narcotics Control Board, the INCB, and the Inter-American Drug Abuse Control Commission, which is a little bit better known as CICAD, which comes out of OAS, the Organization of American States.

Back in March of 2006, the U.N. Commission on Narcotic Drugs adopted a U.S.-sponsored resolution that requests that countries provide estimates of their legitimate requirements to the INCB. This information allows that the board can work with governments—other governments—in determining if the shipments of the chemicals are warranted or if there is potential diversion for these chemicals taking place.

Since 2006, the Department of State has doubled its annual financial contributions to the INCB to ensure that it has the resources necessary to effectively implement the resolution that was passed last year at the UN Commission on Narcotics Drugs (CND).

My office is also coordinating the international provisions of the Combat Methamphetamine Epidemic Act, another effective tool in focusing on international attention to this problem. The very first report under the Act was made on March 1, 2007, not too long ago, as part of what we call the INCSR, or the International Narcotics Control Strategy Report.

By incorporating the data that we are getting through the CND resolution, the data has been coming in through INCB over the past year, and we expect that next year's report in March of 2008 will provide even greater insight on this global issue.

In Mexico, our department is also actively engaged in confronting meth production, the principal foreign source of meth coming into the United States being Mexico. As domestic controls on meth precursors improve, we have anticipated that production will increasingly shift to Mexico, as it has already, as we have seen.

With a serious meth abuse problem of its own, Mexico is taking this issue very seriously. Mexico has imposed tight restrictions. They are beginning to impose much tighter restrictions over the importation, transportation, and retail sales of meth precursors.

Just recently, the Mexican Attorney General has announced that Mexico is planning to ban all importation of these chemicals beginning in January 2008. This is an unprecedented step that DEA orchestrated and the State Department supports.

In addition to more general law enforcement and border control assistance to Mexico, INL has supported a number of programs specifically targeting methamphetamine. In partnership and in collaboration with DEA, we have helped established Clandestine Lab-

oratory (CLANLAB) response teams. Also, we are supporting a new methamphetamine profiling program which tracks manufacturing trends and precursor usage to compare cases and potentially create investigative leads. That is more of a scientific-type program.

We are also supporting the new Federal Police Corps in Mexico, their special investigative units, with equipment, vehicles, and computers. We also provide technology that allows scanning of cargo containers and passenger luggage looking for contraband, and yet it still facilitates legitimate commerce of these precursor chemicals.

Methamphetamine is truly a global problem. The U.N. reports that 15 million people consume meth worldwide, and that over 100 countries reported seizures of amphetamine-type stimulants back in 2005. Meth is prevalent in Asia, where many countries are struggling with high rates of abuse and addiction.

While the U.S. is not the primary target of these drugs coming in from Asia, Asian consumption and trafficking undermine government institutions and provide illegal revenue that could potentially be exploited by both terrorists and regional insurgencies.

The Department of State, therefore, is providing law enforcement training, focusing on meth, environmental clean-up assistance, and demand reduction assistance.

And finally, I would just like to note that the department has made considerable progress in focusing international attention on this issue, and yet we know that more needs to be done. We will continue to work with our interagency partners and international partners to control the production and the trafficking of methamphetamine and to bring greater transparency to the international trade of these precursor chemicals. Thank you.

The CHAIRMAN. Thanks, Ms. McCampbell, very, very much.

[The prepared statement of Ms. McCampbell appears in the appendix.]

The CHAIRMAN. Mr. Allen?

STATEMENT OF MATTHEW C. ALLEN, DEPUTY ASSISTANT DIRECTOR, OFFICE OF INVESTIGATIONS, IMMIGRATION AND CUSTOMS ENFORCEMENT, DEPARTMENT OF HOMELAND SECURITY, WASHINGTON, DC

Mr. ALLEN. Thank you. Chairman Baucus, Ranking Member Grassley, distinguished members of the committee, my name is Matthew Allen, and I am the Deputy Assistant Director for Financial, Narcotics, and Public Safety Investigations at ICE.

I would like to thank you for the opportunity to testify about ICE efforts and the challenges and successes we are having in breaking the methamphetamine supply chain at our borders.

To combat the smuggling of methamphetamine and precursor chemicals, ICE takes a layered approach that focuses on the criminal organizations that smuggle these drugs into the U.S.

To give you a sense of the scope of this problem from the DHS perspective, during fiscal year 2004, ICE and Customs and Border Protection seized 4,920 pounds of methamphetamine nationwide, in 2005 we seized 6,377 pounds, and last year we seized 6,114 pounds.

The southwest region of the United States has become the primary entry point for methamphetamine produced in Mexico, and

the primary smuggling method is the use of concealed compartments in passenger vehicles. The vast majority of seizures occur at ports of entry in California and Arizona, and, in recognition of this threat, ICE efforts have been focused in these two areas.

In San Diego, the DHS established its fourth Border Enforcement Security Task Force in 2006. As with all of our BEST task forces, ICE brings together representatives from Federal, foreign, State, and local law enforcement agencies to focus on the issues most important to their region. In San Diego's case, that is methamphetamine smuggling.

ICE agents focus on identifying the smuggling organizations and targeting their transportation and distribution networks. One investigation in Arizona highlights this strategy. Operation Red Dragon targeted a criminal organization operating a website in the United Kingdom that offered red phosphorus, iodine crystals, and other precursor chemicals used in the manufacture of methamphetamine.

Operation Red Dragon identified a criminal organization using their website, *KNO3.com*, to sell these precursor chemicals to individuals all over the world. Customers accessed this website directly or were linked to it through a popular website which also detailed the process for making methamphetamine, and I have some screen shots and some slides of the website.

Once a purchaser accessed the *KNO3* website, they simply added the chemicals to their shopping cart and paid for the items and shipping with a credit card. The precursor chemicals were then shipped through the mail to the United States. The co-owners of the *KNO3.com* website would purposely mislabel the mailed packages as "iodine for medical works" or "red metal for iron works" to try to avoid detection by Customs and Border Protection.

Our agents in Phoenix coordinated six undercover purchases of red phosphorus and iodine crystals from the website. Agents also executed search warrants on the server and hosting company, resulting in the identification of thousands of transactions for the purchase of precursor chemicals.

Analysis of the information resulted in leads to High Intensity Drug Trafficking Areas (HIDTA) Clandestine Lab Task Forces throughout the United States and several foreign countries. In analyzing these transactions, we identified correspondence between the purchasers and the website operator that often provided valuable evidence and revealed the purchaser's knowledge that the chemicals that were being purchased were intended to be used for methamphetamine and were illegal. Examples of some of these exchanges are depicted on one of these slides, and the last one is actually my favorite: "It is very illegal to do without a license."

As a result of the information shared in this investigation, 122 methamphetamine laboratories were dismantled throughout the United States and another 14 labs were dismantled in Germany, the United Kingdom, and Australia.

On January 30, 2007, Central Scotland Police and the U.K.'s Serious Organized Crime Agency arrested the two heads of the organization on international arrest and extradition warrants. Officers also executed search warrants in the U.K. that led to the seizure of 47 different chemicals, including 1,075 kilograms of red phos-

phorus and 478 kilograms of iodine crystals used to manufacture methamphetamine.

Operation Red Dragon is not our only international effort, however. To target the illicit gains of those organizations that smuggle and distribute drugs and other illicit items, ICE, in conjunction with CBP and officials in Mexico, Ecuador, Panama, and Colombia, implemented a joint strategic Bulk Cash Smuggling initiative, Operation Firewall.

This operation targets illicit cash that has been successfully smuggled from the United States into Mexico and is often destined for Colombia and other Central or South American countries. ICE, in partnership with CBP, provides hands-on training and passenger analysis techniques and concealment methodologies that have proven effective in the U.S.

Since inception, Operation Firewall has resulted in the seizure of about \$96 million and the arrest of 248 individuals. Sometimes our Firewall operations pay additional dividends. Recently, as part of Operation Firewall in Mexico, our office in Mexico City assisted the Mexican Customs Service in the seizure of approximately 884 kilograms of pseudoephedrine, and in February of this year Operation Firewall resulted in the seizure of 3.4 tons of pseudoephedrine in Mexico, both of which had been brought in from Germany.

As another example of the cooperative efforts, on August 13th of this year, Assistant Secretary Myers and Customs and Border Protection Commissioner Basham signed a bilateral strategic plan with Mexican Customs that will further enhance cooperation between our two countries.

Under the auspices of the agreement, ICE and Mexican Customs will be establishing a bilateral enforcement task force and a bilateral trade fraud subgroup that will contribute greatly to the fight against methamphetamine and precursor smuggling, and other associated cross-border activity.

In closing, I believe our agents and officers are working aggressively to attack the smuggling of methamphetamine precursor chemicals and the proceeds that are derived from these activities. We are working cooperatively with both our domestic and foreign law enforcement partners, regardless of which side of the border they are working from.

I would be happy to take any questions that you have.

[The prepared statement of Mr. Allen appears in the appendix.]

The CHAIRMAN. Thank you all very, very much.

It seems to me that there are really only three more areas to fight with methamphetamine. One is demand, to get the demand down. Another is law enforcement, to get the bad guys and stop them. Third, is rehabilitation. I think that is part of the solution here. In that respect, we have in Montana, and also in some other States, drug courts. They are a little expensive, but I think they do help in that area.

But it sounds like, at least in Montana, the demand is coming down, at least among that certain population group, teens and so forth. I am not sure of the degree to which demand is coming down with other population groups in Montana, but in at least one area there is progress, and that is with teens.

So this is kind of a free-ranging discussion here among all of the six of you. But the basic question is, in all those areas, which are the most effective and where do we need more resources? How can this committee help in providing the resources or passing legislation to help address each of those components?

It sounds a bit like there are a lot of super-labs in Mexico, but it also sounds like Mexicans are going to institute a zero import policy of precursors, which is very helpful. But as we all know in life, when we push on the balloon someplace, it tends to pop up someplace else.

So I would like you to kind of just look at the big picture so we are not wasting a lot of time. That is, what do we really need to do, cutting through a lot of bureaucracy and cutting through a lot of stuff to cut down meth?

I will start with you, Mr. Siebel, because you have lots of experience in getting demand down in Montana. I know what you are going to say in part is we just need a lot more money, some Federal money, to help buy these ads around the country, which is probably true. But if you could still just tell us what you think.

Mr. SIEBEL. Well, as you know, Senator, the Meth Project has been entirely a privately funded effort. To date, we have spent about \$18 million on this project. In Montana, going forward through the help of you and others, in 2008 and beyond it will receive some public funding.

The bottom line is, adult meth use is down 70 percent, teen meth use is down dramatically, meth crime is down 53 percent. For \$40 million a year, I believe that we could achieve the same results in the—what are there, 10 States represented by the committee members on this committee? For \$48 million a year, I believe we can achieve the same thing in those States.

The CHAIRMAN. All right. Other general thoughts? I was intrigued with the Mexican component here, the international component. Mexico is making a major effort, it seems. Yet, we have Internet sales. How do we get a handle on imports coming into the United States? Labs are down locally. That is good. We have law enforcement and legislation limiting precursors. Putting them behind the counters helped. But how do we address this international dimension more effectively?

Mr. RANNAZZISI. If I may start, first, when we started looking at Mexico as a source country for meth, and we went back 2 or 3 years ago, one of the things they were lacking was training. Mexico is where we were in the 1970s with clandestine labs. We had a lot of law enforcement officers looking at biker labs, and no one was trained.

With the help of INL and an influx of INL money, we got to train about 2,100 law enforcement officers and regulatory personnel in Mexico. That training was the foundation for their lab operations. We now have five task forces, or SAUs, operating labs in the hotspots: Mishoacan, Sinaloa, Sonora, Jalisco, and Baja Norte. Those are finding the labs. They are actually going out there and looking for the labs. That was not happening before this training, so my hat is off to State for coming up to the plate with the money necessary to train those officers.

But it does not end there. Without the chemicals, methamphetamine cannot be produced: no chemicals, no drugs. So we have to work internationally. We have to prevent the chemicals from going into Mexico, and to do that we have to work with the exporting countries and the INCB. Ms. McCampbell is right, Mexico did cut off their imports, I believe. In January of 2009, all pseudoephedrine will be out of their pharmacies.

The CHAIRMAN. And if that happens, how much of a difference will that make?

Mr. RANNAZZISI. As far as what they are doing now with their import restrictions?

The CHAIRMAN. I mean, if that happens, if they are able to prevent the imports essentially of all the precursors into Mexico, that is one country, one effort, and that is very commendable. How much difference will that make?

Ms. MCCAMPBELL. Senator, let me take that one from a personal perspective out of California. We had all the super-labs there about 5 or 6 years ago. When we started working with Canada to restrict the chemicals that were coming in and we created these new laws where these guys could not go in and take the pills off the shelves and start making cooks and things like that, when we started doing that it made a huge difference.

It literally has almost stopped all the super-labs in California. They are way down. We have pushed them back to Mexico. I do not know how good that is, but it has certainly helped in keeping it out of one State, out of California. It is because we took that initiative to make it happen and we changed these laws.

Another thing. I want to mention, what do we do? I think it is really important that we use international forums to make these countries aware, because not all of them understand what we are going through. I was down in Guatemala not too long ago. They did not even really know about methamphetamine. That is not an issue that they deal with. But we are warning them that it is on its way because it is easy to make.

Coming up also in a couple of weeks, the U.N. is having their General Assembly meeting. We plan to make this an international forum to talk about meth and controlling meth, using the Combat Methamphetamine Act and reporting chemical shipments to the INCB so we can use that information.

The CHAIRMAN. My time is way over. Thank you very much. Senator Grassley?

Senator GRASSLEY. Thank you, Mr. Chairman, and to all of you for your testimony. Mr. Siebel, I am glad to know that your program is working. A couple of years ago you came in and briefed me on it. I appreciate that very much, and I am glad to have the follow-up today.

Mr. SIEBEL. Thank you.

Senator GRASSLEY. Mr. Kendell, I want to get your opinion about the block grant and the cutting of the COPS and Byrne-JAG program. I remain concerned that these proposals keep coming up that are going to limit these vital grant programs.

The first question is, should the funding be pulled and the Byrne-JAG grant program be dissolved? What sort of impact would this have on drug enforcement task forces in our State?

Then, if you could also give me a rough idea—and you may not be able to do this—but what percentage of arrests and prosecutions would you attribute to the funding provided by these programs in our State?

Mr. KENDELL. Byrne-JAG funding is vital to the drug enforcement effort in Iowa, and I think that is the case in many States. Without that funding, we are not going to have a multi-jurisdictional task force program. I think we have seen that over the last 5 years. The money has actually been cut in the neighborhood of 50 percent to Iowa over the last 5 years. What we have left is a skeleton crew, basically, of multi-jurisdictional task forces.

What you see in Iowa is, that is the grass-roots level of drug enforcement. Seventy-four percent of the cases filed by the State Division of Narcotics Enforcement originated as multi-jurisdictional task force cases, and the majority of DNE's cases get adopted for Federal prosecution. So it really does, in Iowa in particular, start at the grass-roots level in the communities.

This is really the only way that those communities can have any kind of coordinated drug enforcement effort. It allows them to share resources. We have some communities in Iowa that have a 3-person police force. Between 24/7 coverage of their streets, they do not have time to do drug enforcement. So, it is absolutely vital.

Senator GRASSLEY. You were going to answer my next question.

Mr. KENDELL. I was just going to say, as far as the percentage of arrests, I provided some materials in my written testimony. I do not have the numbers in my head, but we laid out our State fiscal year 2007 arrest numbers for drug task forces in Iowa.

Senator GRASSLEY. All right.

Now, what effect, Mr. Kendall, is the pure form of meth having on users and our State's attempt to reduce addiction rates?

Mr. KENDELL. With the reduction in the labs, we have had about a 1-percent decrease in the number of people admitted to treatment for methamphetamine as their primary drug, from like 14.6 percent of admissions down to 13.6 percent. It is almost a nominal decline. The purity level just makes it that much harder for them to be faced with the situation that they want to change, that they can change, and that they can make a different track in their life.

That is where the prevention programs that we have heard about are good. ONDCP has one going recently that provides a message of hope. I think that is important also in the prevention programs that we do, that there is hope for people addicted to methamphetamine, that treatment can work.

Senator GRASSLEY. Ms. McCampbell, on August 7, the *Washington Post* ran an article entitled, "U.S. Anti-Drug Aid Would Target Mexican Cartels." It stated that the administration was close to securing a multi-year deal to provide anti-drug aid to Mexico, similar to Colombia. The article states that the deal would likely involve training and gear to Mexico to help root out drug cartels. However, while the article provides some information on this proposed agreement, it is short on details.

I have another hat as co-chairman of the Senate Caucus on International Narcotics Control, and I am interested in any agreement that would provide foreign aid for international control. So, given that you are here to testify on current issues dealing with

methamphetamine and the border, can you provide us with some details on this agreement and how it would help curb the importation of high-quality meth from Mexico?

Ms. MCCAMPBELL. Yes, Senator. When the President met in Canada just recently with President Calderon, they did have extensive talks about, what can we do, what can the United States do, with Mexico to act as partners, not to come in and just give aid but to work as partners, because the drug trafficking and the gangs, the meth, it is all affecting both of our countries. We believe that President Calderon has made extensive efforts to try to curb this problem. When he speaks, he seems like he is on our side and we have a common mission together.

As far as details, the reason it is not in the paper is because we do not have the details down yet. We have sent a number of teams down to Mexico trying to determine, what is it that we can do to help them, what kind of equipment can we give them, what kind of training we can provide. So we do not have the details yet. The President has said, or at least our legislative folks are preparing to come and meet individually with Congress.

Senator GRASSLEY. Would you brief me in my capacity as chairman of the International Narcotics Control Caucus when you have those details?

Ms. MCCAMPBELL. Absolutely.

Senator GRASSLEY. All right.

Senator Bingaman?

Senator BINGAMAN. Thank you very much, Mr. Chairman.

Mr. Siebel, congratulations to you on your success with your project up in Montana.

Mr. SIEBEL. Thank you, sir.

Senator BINGAMAN. I am interested in knowing, I saw the release that you put out from the Meth Project about the ONDCP adopting some of the ads that you used in Montana, and they are going to use those now, as I understand it, in eight States. Eight additional States.

Mr. SIEBEL. Yes, sir.

Senator BINGAMAN. How much do they have budgeted for that?

Mr. SIEBEL. I believe that the Congress passed legislation to set aside 10 percent of their \$100 million prevention campaign in methamphetamine, and they took about \$9 million of that. Is that about right? They took about \$9 million of that and kind of sprinkled together some Partnership for a Drug-Free America ads, and a few of our ads that they are running around in difference places in the country. That is a little different than what we did in Montana and what we are doing in your neighboring State of Arizona, which is kind of a sustained, consistent, high-reach level for a couple of years.

Senator BINGAMAN. If we were to do a sustained level for a year nationally—

Mr. SIEBEL. In the State of New Mexico.

Senator BINGAMAN. Not just New Mexico, but nationally.

Mr. SIEBEL. All right. Here is how I will answer the question. The State of New Mexico would cost \$2.5 million. To sustain it at the same level that we are sustaining it in the State of Montana,

to do it nationally would cost about \$300 million a year, just for methamphetamine.

Senator BINGAMAN. All right.

If you did not do as sustained an effort as you have done in Montana, but did do a significant effort at raising awareness—

Mr. SIEBEL. In fairness, sir, I think that if we look at some of our larger media markets, some of our larger media markets are the places that do not have the most significant methamphetamine problems. So on a per capita basis, the expensive media markets, New York, L.A., Chicago, this is not where the methamphetamine problem tends to be—and I will defer to experts here—but when we get into more rural areas, the Central Valley in California, Montana, New Mexico, downstate Illinois. And when I say \$300 million, that assumes taking out the most expensive media markets. The problem really is more concentrated in the least-expensive media markets.

Senator BINGAMAN. So what would you guess or estimate would be the cost of going into those areas where the problem is worse?

Mr. SIEBEL. I believe that for \$100 million a year, we could reduce methamphetamine use by 50 percent in the United States.

Senator BINGAMAN. Do you know what ONDCP is planning to request in the way of a budget next year?

Mr. SIEBEL. No, sir. But my understanding is that their requirements are a little bit broader and methamphetamine is one of a—I mean, they have to deal with the whole issue of illegal substances.

Senator BINGAMAN. Right.

Mr. SIEBEL. So they have a much bigger issue to address.

Senator BINGAMAN. All right.

Mr. SIEBEL. But I believe that their budget is on the order of \$100 million for all drugs.

Senator BINGAMAN. Let me ask about this decision by Mexico to ban the importation of precursor drugs. I thought I understood you, Ms. McCampbell, to say that was effective the 1st of January, 2008, and I thought I heard Mr. Rannazzisi say it was 2009. Which is it?

Mr. RANNAZZISI. The way we understand it, discussing it with our counterparts in Mexico, I believe they have just instituted pharmacy-only sales for pseudoephedrine. They will stop the importation of pseudoephedrine into the country in January of 2008, January 1, 2008. They will deplete all of their stores of all the pseudoephedrine products, so by January of 2009 there will be no product left in the country, pseudoephedrine.

Senator BINGAMAN. All right. So as quickly as the supply is sold out, it will be impossible to legally obtain pseudoephedrine. Is it other precursors, or just pseudoephedrine?

Mr. RANNAZZISI. Pseudoephedrine and ephedrine, the way it was explained to me. We have not seen it in writing yet, but pseudoephedrine and ephedrine products. Again, all the stores will be depleted by January. That is what they are estimating, January of 2009. But they said, by law, it has to be done by January of 2009.

Senator BINGAMAN. All right.

I have one other question, Mr. Chairman. Should I go ahead with that?

Senator GRASSLEY. Why don't you go ahead?

Senator BINGAMAN. Let me just ask one other question. On these super-labs, I keep hearing about how all the methamphetamine that is coming into the country now is coming from super-labs in Mexico. Do we know where those labs are located, and do the Mexicans know where those labs are located?

Mr. RANNAZZISI. The Mexican government, with our assistance, has identified hot spots, again, in Mishoacan, Jalisco, Baja Norte, Sonora, and Sinaloa. Those five are where there is a lot of meth trafficking and meth manufacturing activity. But as it is in this country, it is very difficult to identify the exact locations, so the police officers are being trained or have been trained in how we identify here. It is a long process.

If you went back in the history of clandestine labs, we were actually looking for them. 2002, 2003, and 2004, everybody was just stumbling over them. I mean, 1,700-plus lab incidents in 2004. We had police officers who were telling us, we were on the way to one lab and we find a dump site on the way to that lab. Those numbers have since gone down. I think in 2006, we only had a little over 7,000 labs, probably 8,000 when it is all over with. This year, it will go down quicker.

So they are in the same boat that we are in. They are basically looking for the labs now because they do not have the numbers that we have, the gross numbers that we have, but the labs they do have are very large and very well hidden.

Senator BINGAMAN. I will stop with that.

Thank you very much, Mr. Chairman. Thank you all for being here.

Senator GRASSLEY. I will ask a couple of questions that I was not able to ask. Also, Senator Roberts informed me that he would be back to ask questions.

Mr. Rannazzisi, Ms. McCampbell, or Mr. Allen, maybe one or all of you, I want to ask about candy-flavored meth. I think you probably know better than I do that this is a problem. In the past year, law enforcement officials have been finding a greater presence of this meth on the West Coast and in the Midwest. So far, 13 States have documented arrests on candy-flavored meth-related charges. Is candy-flavored meth part of the Mexican drug cartels' efforts to get children addicted to their product or is this emerging trend largely more home-grown? All of you, or one of you. Whoever can answer it.

Mr. RANNAZZISI. While we have identified cases where there have been candy-flavored, Strawberry Quick meth, or whatever you are talking about, I do not know if we could tie it to one particular organization or a Mexican organization. That is something we would have to get back to you on, sir. But I promise, once we get done here, we will go back and look at all of our files to determine that.

Senator GRASSLEY. All right.

Is that the same for the rest of you that I was going to ask?

Ms. MCCAMPBELL. I do not have specific knowledge on it either. The only thing I can say is, we did see some candy-flavored meth coming up from the mom-and-pop labs, the smaller labs that were in the rural areas. But I do not know that we have seen any of it in large amounts.

Senator GRASSLEY. All right.

Mr. ALLEN. And I would say that, at the smuggling level, we have not, to my knowledge, seen meth that has had flavoring added to it, mostly because what we see is not really packaged for street-level distribution. But we would also take it back and take a look at what we have submitted to the DEA labs to get a sense of whether or not there are those kinds of additives.

Senator GRASSLEY. All right.

To the same three of you, the success of the Combat Methamphetamine Act causes us now to turn our attention to our largest outside supplier, as we have said here, Mexico. What legislative changes would you propose to reduce the amount of Mexican meth coming into the United States? What non-legislative changes are needed to help stop the flow of meth coming from Mexico? If we stop the production and trafficking of meth from Mexico, do you believe that somebody would find some other way to get it into the country?

Mr. ALLEN. I will start out. I would say, one non-legislative or a hybrid of a legislative and a non-legislative fix is that, at the point at which we come to an agreement with the Government of Mexico on how we can assist them with the problem, I think we will need a lot of congressional support to make that happen. I think we found a very willing partner in the new president there, and he has done all the right things so far.

I think when that time comes, we will need to work as a unified government to make it happen. I think, to take your second point, as we have talked about a couple of times, as we work to reduce the manufacturing and movement of meth from Mexico, I think we are going to have to keep our eye on the ball and see how both the smuggling of precursors changes, and assist the Government of Mexico to focus on whether or not those labs do leave Mexico or whether or not the smuggling of precursor chemicals becomes a challenge for them that we can assist them with, and then also look to other countries where we might see meth production shift to and take the place of Mexico.

Senator GRASSLEY. Is the answer the same for you other two?

Ms. MCCAMPBELL. Yes, in essence. I would say, Senator, that as soon as the details are worked out—which should be very soon; I think they are at the tail end of coming up with how we are going to go about this security package to Mexico—we can get it to you and start informing you of the details, and I think you will be pleased about the efforts between our two countries.

Senator GRASSLEY. I may have some questions I want to submit in writing, but that is all I am going to ask vocally.

The CHAIRMAN. Thank you, Senator.

Senator Roberts?

Senator ROBERTS. Thank you, Mr. Chairman. I am out of breath, I apologize. Thank you for doing a song and dance so I could at least get back and ask some questions.

The CHAIRMAN. Senator, I will be right back, but you are in charge now. [Laughter.]

Senator ROBERTS. I am going to move S. 551. [Laughter.] Without objection, it is passed by the full committee for the third time. [Laughter.]

The CHAIRMAN. Without objection, so ordered. [Laughter.]
 Senator ROBERTS. Thank you.

I have a glowing statement here that reflects the concern and the fine testimony of the witnesses, and I would ask that it be put in the record at this point. Without objection, it is so ordered.

[The prepared statement of Senator Roberts appears in the appendix.]

Senator ROBERTS. I am starting to like this. [Laughter.]

Anyway, they said that a Senator was supposed to be in two places at the same time over half of the time. A real funny thing occurs when they discover that they are in the wrong place. This is the Agriculture Committee, right? [Laughter.] All right.

Mr. KENDALL, are you a Hawkeye or are you a Cyclone?

Mr. KENDALL. Cyclone. My wife went to Iowa State, so I am a Cyclone. I actually grew up a Badger, so I hope that does not get me—

Senator ROBERTS. I am just going to compliment you on your field goal. That has nothing to do with it, but I just thought I would toss it out.

Mr. Siebel, I am just absolutely amazed. Not amazed, but this is quite a record. Montana used to rank fifth in the Nation for per capita meth abuse. Then you launched this tremendous advertising campaign, 15 million bucks, financed entirely by the private sector. Your suggestion is we spend \$40 million of the taxpayers' money in Montana, Iowa, Arkansas, New Mexico, Washington, Mississippi, Arizona, Idaho, obviously most of it in Kansas, and then Nevada. This was all basically an advertising program.

The thought occurs to me, being an old newspaper guy, that is very, very impressive if advertising could do that. There was someplace in your comments where you said that if you asked a youngster, would they be inclined to use meth for the first time, I do not know how that was put to them, but 84 percent said "no." The thought occurs to me, I do not know why anybody would say "yes."

Mr. SIEBEL. When we started, Senator, before we began doing any advertising, we did a baseline survey. Sixty-seven percent of the young people said methamphetamine was readily available at the time; 44 percent of young people in the State saw significant benefit in using meth: increased energy, euphoria, weight loss, what have you. Twenty-five percent of young people saw no risk in giving it a try. So if you look at availability, perceived benefit, little down side of risk, that was a recipe for disaster.

Senator ROBERTS. How long has your public service messaging been in effect so that you could overcome that attitude?

Mr. SIEBEL. We began the first week of September of 2005, sir, so it has been exactly 2 years.

Senator ROBERTS. Two years, and you have been able to do that?

Mr. SIEBEL. Yes, sir.

Senator ROBERTS. That is significant. I was trying to figure out if there was another criteria for law enforcement people to back that up, other than simply polling. And I am not trying to perjure that by any means. But that is unique. That certainly is one way to do it. I know that the Chairman mentioned demand, rehabilitation, and law enforcement. I would put advertising in there, too.

Mr. SIEBEL. We are focusing on the demand side.

Senator ROBERTS. On the demand side.

Mr. SIEBEL. We are reducing demand.

Senator ROBERTS. That is amazing.

And then in your surrounding States, it went up. Not by a lot, but it went up by some.

Mr. SIEBEL. In Wyoming and South Dakota, meth use went up in the same period of time. In Oregon, it went down.

Senator ROBERTS. I think in Kansas it probably went up.

Ms. McCampbell, you have probably the most impressive resume of anybody I have ever read about in your chosen field. You are the recipient of the Jack Kerrigan Award. You have a B.S. degree in Criminal Justice, a Master's degree, Juris Doctorate degree from San Francisco Law School. We will forgive you for that. A graduate of the FBI National Academy. I do not see anything here that you have not done. I have a question for you, but first I have a question for you, Mr. Kendell.

Mr. Kendell, you have 99 counties in Iowa, and you have really beefed up on your security. You indicate that there is some Federal Justice funding. What percent of that funding of that security program that you have—maybe that is the wrong way to put it—is based on Federal funding? Can you just give me a ballpark figure?

Mr. KENDELL. This year we put the largest percentage—so I am going to say 70 percent—of our Byrne-JAG award into the multi-jurisdictional drug task force. We combined that with a State appropriation this year of approximately \$1 million, and then there is a 25 percent local match of local dollars.

Senator ROBERTS. So it is a million bucks?

Mr. KENDELL. That is the State appropriation.

Senator ROBERTS. Oh, I am sorry.

Mr. KENDELL. \$2.9 million, I believe, is our Byrne-JAG money.

Senator ROBERTS. So it is about \$3 million.

Mr. KENDELL. Right.

Senator ROBERTS. And you are seeing some real improvement with that program, obviously?

Mr. KENDELL. Well, actually it is something that has been cut over the past 5 years. We have had a 50-percent cut in the Federal funds available for that program, so really right now it is a skeleton of what it was 5 years ago.

Senator ROBERTS. But the skeleton has been effective.

Mr. KENDELL. It has been effective. The locals continue to do more with less.

Senator ROBERTS. But with more funding, you could be more effective.

Mr. KENDELL. Absolutely.

Senator ROBERTS. All right. That is pretty much understood by everybody who comes to Washington.

I have a bill, S. 551. It is co-sponsored by Mr. Nelson, Mr. Hagel, Mr. Isakson, Mr. Cochran, and Mr. Salazar, but he does not know it yet. [Laughter.] It would provide a tax credit to improve security measures at sites where agriculture chemicals are stored. Qualified chemical security expenditures include tagging, locking tank valves, and chemical additives to prevent theft of specific agricultural chemicals or to render such chemicals unfit for illegal use.

Businesses eligible for the tax credit include those that sell agricultural products, including specific agricultural chemicals that retail predominantly to farmers, ranchers, or businesses that manufacture, formulate, distribute, or aerially apply agricultural chemicals.

My question to you, Mr. Kendell, Mr. Director: do you think this legislation would assist in further reducing the number of meth labs? The answer is “yes.” [Laughter.]

Mr. KENDELL. Yes. I think it definitely would. That is one of the things that Iowa has done over the last 4 years, taken congressionally directed funding and used it to purchase tank locks for anhydrous tanks. I think that, combined with the precursor chemicals—I mentioned that our reduction of meth labs is right around 90 percent right now, and that is higher than the national average. I think there is clearly something more going on than the precursor controls in Iowa. I think programs like the tank lock program and calcium nitrate are part of that.

Senator ROBERTS. Well, if we are getting a lot of pressure on the budget in one way with regards to the grants, et cetera, et cetera, with the \$40 million that Mr. Siebel would like to have, it seems to me, I do not know if we give a tax credit—I know this committee is very hesitant to go down that road, because once you go down it, why, you keep going down it. But it seems to me that that would work, at least in regards to security.

I am going to ask Ms. McCampbell what she thinks about that. In other words, it is coming in. You are going to try to stop it, and you are doing a better job of stopping it. Once it gets here, from a legal standpoint, if we could lock it up and secure it so that people could not have access to it, it seems to me that that would be a benefit.

Ms. MCCAMPBELL. Well, no doubt, I agree with you. I mean, controlling what is here, the imports, the exports—

Senator ROBERTS. Exactly.

Ms. MCCAMPBELL. Yes. We have to do that, and we are on the right track with that with the Combat Methamphetamine Epidemic Act. That is what that whole thing was about, was to first of all determine who is sending it here and who is getting it, and how do we control it. I think we need to continue the next steps forward on the Combat Methamphetamine Epidemic Act.

As far as controls, I personally think a lot of this is awareness. There are foreign countries that we are getting it from. It is coming from India, Germany, and these other places. I think an awareness program is essential to make sure they understand what we are getting and what it is doing.

I will tell you, one of the things that I run into is in Bolivia—which is not one of the countries we are talking about here. But they are on a mission to try to legalize coca because they are trying to build an economy on it. They do not care whether or not it is producing cocaine in this country or allowing cocaine in here.

Our starting point is to make them understand what it is it is doing. You have little coca farmers out there, and they just see a plant. They do not think it is any big deal, and then it ends up in our country. I think we have to take that same route with the

Combat Methamphetamine Epidemic Act and continue to make these countries know what is occurring.

Senator ROBERTS. Well, the bill is S. 551. The same thing would apply to Afghanistan, too. We are having a lot of problems there, too.

But thank you for all of your work, and thank you, all of you, for taking time out of your valuable schedule and informing the committee on this important issue.

And as Chairman of the committee, I will now deem that this committee is through with its deliberations, and we thank you and we adjourn at this particular time. Thank you so much.

[Whereupon, at 11:32 a.m., the hearing was concluded.]

APPENDIX

ADDITIONAL MATERIAL SUBMITTED FOR THE RECORD



U.S. Immigration and Customs Enforcement

STATEMENT

OF

MATTHEW C. ALLEN

DEPUTY ASSISTANT DIRECTOR
FINANCIAL, NARCOTICS & PUBLIC SAFETY

U.S. IMMIGRATION AND CUSTOMS ENFORCEMENT
DEPARTMENT OF HOMELAND SECURITY

REGARDING A HEARING ON

**“BREAKING THE METHAMPHETAMINE SUPPLY CHAIN:
MEETING CHALLENGES AT THE BORDER”**

BEFORE THE

SENATE COMMITTEE ON FINANCE

September 18, 2007
215 Dirksen Senate Office Building
Washington, D.C.

INTRODUCTION

Chairman Baucus, Ranking Member Grassley, and distinguished Members of the Committee: On behalf of Assistant Secretary Myers I would like to thank you for the opportunity to testify about U.S. Immigration and Customs Enforcement (ICE) efforts and the challenges and successes we are having in breaking the methamphetamine supply chain at our borders.

As you know, ICE is the Department of Homeland Security's (DHS) largest investigative agency with critical responsibilities both along our borders and within the interior. I am pleased to provide you today with ICE's assessment of the threats to the American people related to the smuggling of methamphetamine and the precursor chemicals used in its production. Our insight on these topics is enhanced by our relationship and affiliation with U.S. Customs and Border Protection (CBP), our primary DHS partner and lead DHS agency for interdiction at the border.

ICE RESPONSE TO METHAMPHETAMINE AND PRECURSOR SMUGGLING

To combat the smuggling of methamphetamine and precursor chemicals, ICE takes a layered approach that focuses on the criminal organizations that smuggle these drugs into the United States. ICE not only targets the organizations that smuggle precursor chemicals to or through the United States, but also works with our law enforcement partners in Mexico to attack the organizations producing methamphetamine for distribution.

As I will discuss later in my testimony, we are now seeing a shift in the production of methamphetamine to Mexico, which we believe is in part due to the success of controlling the sale

and distribution of methamphetamine precursor chemicals in the United States – through tools like the Combat Methamphetamine Epidemic Act of 2005. I will also provide information on an ICE investigation that identified how some criminal organizations have changed methods to obtain precursor chemicals.

First, however, I would like to give you a sense of the scope of this problem from the DHS perspective. During fiscal year (FY) 2004, ICE and CBP seized 4,920 pounds of methamphetamine nationwide. This was followed with seizures of 6,377 pounds in FY 2005, and 6,114 in FY 2006. As you can see, methamphetamine seizures increased significantly from FY 2004 to FY 2005 and methamphetamine trafficking continues to pose a serious threat to our nation.

The Southwest region of the United States has become the primary conduit for the transportation of methamphetamine produced in Mexico and distributed throughout the United States. The primary method for smuggling methamphetamine into the United States is through the use of concealed compartments in passenger vehicles, with the vast majority of seizures occurring at ports of entry (POE) in San Diego, California, and Nogales, Arizona. During FY 2006, 2,131 pounds of methamphetamine were seized at the San Diego area ports of entry, while 688 pounds were seized at the Nogales port of entry. In recognition of this threat, ICE efforts have been focused to combat methamphetamine smuggling in these two areas.

In San Diego, California, DHS established its fourth Border Enforcement Security Task Force (BEST) in 2006. As with all of our BEST Task Forces, ICE brings together representatives from federal, foreign, state and local law enforcement agencies to focus on the issues most important to their region. In San Diego's case, this issue is methamphetamine smuggling. In addition, I would

also like to point out that San Diego Special Agent in Charge Miguel Unzueta represents ICE on the national steering committee for the High Intensity Drug Trafficking Area (HIDTA) National Methamphetamine and Chemicals Initiative (NMCI). The National Methamphetamine Chemical Initiative targets the production and illegal distribution of methamphetamine precursors by sharing information among law enforcement agencies and providing training to investigators and prosecutors.

Investigations in Arizona reveal that methamphetamine and its precursor chemicals are smuggled through Southern Arizona ports of entry and subsequently transported to Phoenix. Once there, it is stockpiled in stash houses, then distributed throughout the United States. ICE agents identify the smuggling organizations and target their transportation and distribution networks. However, due to increased efforts, organizations are turning to alternative methods to smuggle precursor chemicals across our borders.

One operation in particular that demonstrates these alternative methods is Operation Red Dragon, which targeted a criminal organization operating a website in the United Kingdom that offered red phosphorous, iodine crystals and other precursor chemicals used in the manufacture of methamphetamine. This investigation included agents and officers from ICE, the U.S. Postal Inspection Service, the Drug Enforcement Administration (DEA), the Maricopa County (Arizona) HIDTA Task Force, the Phoenix Police Department, Metropolitan Police in London, the Cleveland Police in Middlesbrough, England, the Central Scotland Police and the Serious Organized Crime Agency (SOCA). Operation Red Dragon identified a criminal organization utilizing their website, KNO3.com, to sell precursor chemicals to individuals all over the world. Customers accessed this

website directly or were linked to it through a popular website, which details the process for making methamphetamine.

Once a purchaser accessed the *KNO3.com* website, they simply added the chemicals to their shopping cart and paid for the items and shipping with a credit card. The precursor chemicals were then shipped through the mail to the United States. Brian HOWES and Kerry Ann SHANKS, the co-owners of *KNO3.com*, would purposely mislabel the packages as “Iodine for Medical Works” or “Red Metal for Iron Works” in order to avoid detection. With the assistance of agents based out of the ICE Cyber Crimes Center, our agents coordinated six undercover purchases of red phosphorous and iodine crystals from the *KNO3.com* website.

Even though the business was located in England, the server and hosting company were located in the United States. Thus, search warrants were executed on the server and hosting company, and ICE computer forensic agents were able to retrieve information resulting in the identification of thousands of transactions for the purchase of precursor chemicals. ICE agents and Maricopa County (Arizona) Clandestine Lab Task Force officers conducted extensive analysis of the information and disseminated leads to HIDTA Clandestine Lab task forces throughout the United States. Agents also shared information with officials in the United Kingdom, Germany and Australia.

In analyzing these transactions, we identified correspondence between the purchasers and the website operator that often provided valuable evidence. These communications revealed the purchaser’s knowledge that these transactions were illegal and that the chemicals being purchased were intended to be used to produce methamphetamine. Examples of these exchanges include:

- “I see you have all the goodies...but can you provide me with a decent recipe? I’m sure you know what I mean...hehe Thanks.”
- “Word of advise [SIC] though. If my government clamps down on your exports your business is doomed. I’d remove your Red Phosphorus.com links. Us Americans know you’re there.”
- “By the way, I’d be very careful with selling red phosphorous to America. It’s VERY illegal to do without a license.”

Ultimately, through undercover operations, hard work and through the gathering of extensive intelligence, 122 methamphetamine laboratories were dismantled throughout the United States. Furthermore, another 14 methamphetamine laboratories were dismantled in Germany, United Kingdom and Australia.

On January 30, 2007, the Central Scotland Police and SOCA arrested the two heads of the criminal organization, Brian HOWES and Kerry Ann SHANKS, based on international arrest and extradition. Additionally, officers executed search warrants of their residence and businesses leading to the seizure of 47 different chemicals, including 1,075 kilograms of red phosphorus and 478 kilograms of iodine crystals. Both of these chemicals are often used to manufacture methamphetamine. Brian HOWES and Kerry Ann SHANKS are currently awaiting extradition to the U.S. for prosecution. ¹

¹ Charges brought against a person through an indictment are accusations only. That person is presumed innocent until proven guilty.

In the United States, Operation Red Dragon led to the arrest of over 90 individuals. This successful investigation exemplified how effective the CMEA has been because smaller methamphetamine labs are now turning to the Internet to import precursor chemicals to produce methamphetamine. However, with efforts such as Operation Red Dragon, ICE, in conjunction with law enforcement partners from around the world, has shown that even criminal organizations exploiting the Internet are not safe from prosecution.

INTERNATIONAL COOPERATIVE EFFORTS

Operation Red Dragon is not our only international effort. ICE has undertaken several bilateral and multilateral initiatives with our foreign counterparts to combat the smuggling of methamphetamine and precursor chemicals, as well as to track and seize the proceeds that are derived from this illicit trade.

To target the illicit gains of those organizations that illegally import and distribute drugs and other unlawful items, ICE in conjunction with CBP and officials in Mexico, Ecuador, Panama, and Colombia, implemented a joint strategic Bulk Cash Smuggling initiative, Operation Firewall. This operation targets illicit cash that has been successfully smuggled from the United States into Mexico and is often destined for Colombia and other Central or South American countries. ICE, in partnership with CBP, provides hands-on training, passenger analysis techniques and concealment methodologies that have proven effective in the U.S. Since inception, Operation Firewall has resulted in the seizure of over \$96 million in U.S. currency and negotiable instruments and the arrest of 248 suspects.

Sometimes our Firewall operations pay additional dividends. Recently, as part of Operation Firewall, our ICE Attaché Mexico City office assisted Mexican customs in the seizure of approximately 884 kilograms of pseudoephedrine at the Cancun Cargo Airport. In addition, in February 2007, another Firewall operation resulted in the seizure of 3.4 tons of pseudoephedrine at the Benito Juarez International Airport. In both incidents, the pseudoephedrine was shipped from Germany to Mexico inside containers. In an effort to hide the true nature of the shipment from Mexican customs officials, the containers were mislabeled as containing another chemical.

In addition to smuggling cash in bulk, criminal organizations also use trade-based money laundering systems to exploit vulnerabilities in the U.S. and foreign financial and trade systems in order to launder their illicit proceeds. Trade-Based Money Laundering is the process of disguising the proceeds of crime and moving value through the use of trade transactions in an attempt to mask or legitimize their illicit origins. To address the threat of trade-based money laundering schemes, ICE has established Trade Transparency Units in Argentina, Brazil, Paraguay and Colombia. ICE is also currently working to establish a Trade Transparency Unit in Mexico. These investigative units facilitate the exchange of intelligence and trade information and use that information to identify and dismantle trade-based money laundering organizations.

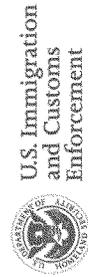
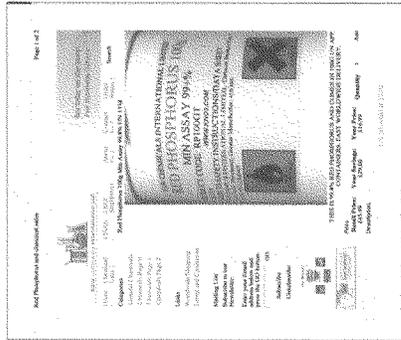
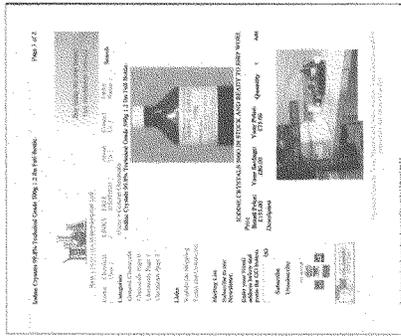
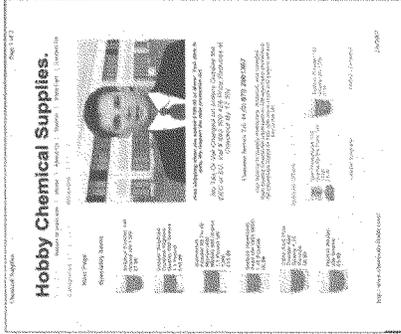
Lastly, on August 13, 2007, ICE Assistant Secretary Myers and CBP Commissioner Basham signed a bilateral strategic plan with Mexico's Administration General of Customs that will further enhance cooperation between our two countries. The agreement calls for the creation of four separate bilateral working groups that will increase the cooperation between DHS agencies and our Mexican customs counterparts. The Customs Enforcement Working Group that ICE will co-chair with

Mexican customs will strengthen bilateral law enforcement cooperation in contraband smuggling, smuggling of prohibited goods, fraud and other related crimes. In this working group, ICE and Mexican customs will establish a bilateral enforcement task force and a trade-fraud subgroup that will contribute greatly to the fight against methamphetamine and precursor chemical smuggling as well as other associated cross-border criminal activity.

CONCLUSION

In closing, I believe that the agents and officers of ICE and CBP are aggressively attacking the smuggling of methamphetamine, precursor chemicals and the illicit proceeds derived from these criminal activities. We are working cooperatively with our domestic and foreign law enforcement counterparts to pursue smugglers and traffickers, regardless of which side of the border they are operating. I would like to take this opportunity to thank the Committee for your support of ICE, CBP, DHS and our law enforcement mission. I would be happy to take any questions that you might have.

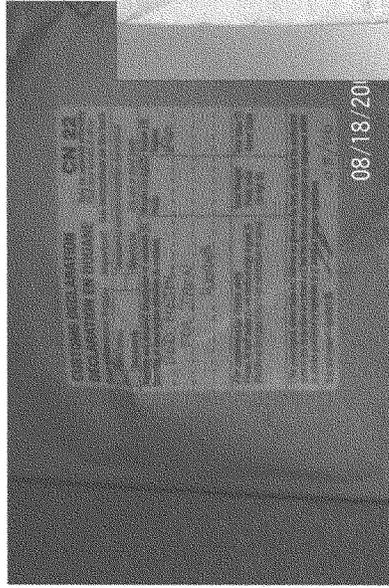
Operation Red Dragon
 www.kno3.com Web site
 AKA Raw Chemicals International



U.S. Immigration
 and Customs
 Enforcement

Operation Red Dragon Mislabeled Packages

Packages were intentionally mislabeled.



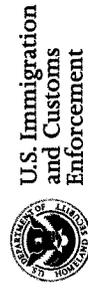
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CUSTOMS DECLARATION DECLARATION EN DOUANE		CN 22	
May be opened only if necessary. See instructions on the back. Important! See instructions on the back.		May be opened only if necessary. See instructions on the back. Important! See instructions on the back.	
Documents: <input type="checkbox"/> Commercial invoice <input type="checkbox"/> Certificate of origin <input type="checkbox"/>	Other data: <input type="checkbox"/> For one or more consignees <input type="checkbox"/>	Weight (in kg) <input type="checkbox"/> Volume (in liters) <input type="checkbox"/>	Value (in dollars) <input type="checkbox"/>
Quantity and detailed description of contents (1) Quantité et description détaillée du contenu		Total weight (in kg) <input type="checkbox"/> Total value (in dollars) <input type="checkbox"/>	
MEDICAL USE		For commercial items only Pour des articles commerciaux uniquement	
MEDICAL USE		This declaration, when filled out, indicates the nature of the items, which are not subject to duties in this declaration and that the items are not subject to duties in this declaration.	

Operation Red Dragon
Suspicious Customer E-mails to
www.kno3.com

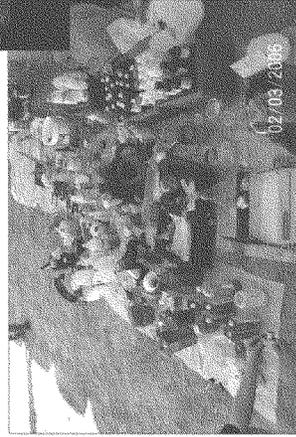
- “I see you have all the goodies...but can you provide me with a decent recipe? I'm sure you know what I mean...hehe Thanks.”
- “ ... Word of advise though. If my government clamps down on your exports your business is doomed. I'd remove your Red Phosphorus.com links. Us Americans know you're there.”
- “By the way, I'd be very careful with selling Red Phosphorus to America. It's VERY illegal to do without a license.”

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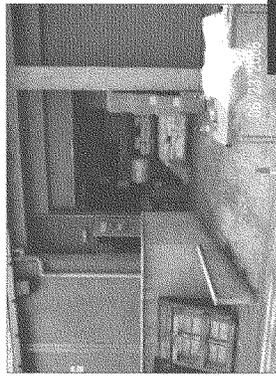
Operation Red Dragon
**Methamphetamine Laboratory
Seizures**

Based on the initial leads,
labs were seized in Arizona
and in other states.



Operation Red Dragon

Chemicals Seized in Scotland



U.S. Immigration
and Customs
Enforcement

**Responses to Questions for the Record From Matthew Allen
Breaking the Methamphetamine Supply Chain: Challenges at the Border
September 18, 2007**

Question: How will the ICE Trade Transparency Unit and the Strategic Plan with Mexico assist in preventing the meth drug proceeds in the United States from getting back to Mexico? Please provide an example of these efforts.

Answer: The Trade Transparency Unit (TTU) will assist in preventing methamphetamine drug proceeds in the United States (U.S.) from getting back to Mexico via alternative remittance schemes by identifying anomalies related to cross-border trade that are indicative of international trade-based money laundering. The TTU in Mexico will use information contained within several U.S. and Mexican databases to conduct analysis of persons and companies associated with imports and exports of commodities entering or leaving the United States and Mexico. This targeting analysis will be used to strategically target high-risk cargo, individuals, and companies involved in a myriad of criminal activities, including bulk currency smuggling. Leads developed as a result of this analysis will be disseminated to field offices for additional investigation. This investigative approach targets the proceeds of methamphetamine and other narcotics being transported to Mexico via airports, land ports of entry, and seaports.

Question: Does ICE get the cooperation it needs from other countries in confronting this threat?

Answer: Yes. Currently, ICE has 50 offices located in 39 countries around the world. In U.S. embassies throughout the world, ICE Attachés work collaboratively with their foreign law enforcement counterparts to coordinate investigations, enhance communication and foster the proactive exchange of data and intelligence.

Question: What else could be done internationally to disrupt the flow of meth from international sources?

Answer: The southwest region of the United States has become the primary conduit for the transportation of methamphetamine produced in Mexico and distributed throughout the United States. However, recent ICE investigations have concluded that some criminal organizations still manufacturing methamphetamine in the United States are using the Internet to purchase the necessary precursor chemicals from international sources to produce methamphetamine. In addition, there is the potential for Canada, a significant methamphetamine producer, to become a source country for meth consumed domestically.

ICE is currently developing initiatives to target drug smuggling organizations that use Internet Web sites to facilitate the smuggling of precursor chemicals for the manufacture of methamphetamine.

Question: What is being done to curb the link between meth sales and bulk cash smuggling?

Answer: ICE continues to expand its Bulk Cash Smuggling (BCS) initiative, Operation Firewall, to additional foreign and domestic locations. This operation uses a systemic approach related to the search and discovery of concealed illicit cargo crossing our borders, and therefore has a direct effect on curbing the flow of methamphetamine and associated proceeds in and out of the United States. Several significant pre-cursor chemical seizures have occurred as a result of Operation Firewall, such as 884 kilograms of pseudoephedrine seized at Cancun Cargo Airport and 3.4 tons of pseudoephedrine seized at Benito Juarez International Airport in Mexico. In addition, ICE is currently working with the Department's Office of Counternarcotics Enforcement (CNE) to update a 1993 bulk cash smuggling report. CNE and ICE seek to update *The Fundamentals of U.S. Currency Movements within Mexico* that was written for the Department of Treasury in January 1993. Once completed this study will provide the Department and other stakeholders within the U.S. law enforcement and intelligence communities a current understanding of how bulk U.S. currency is transshipped to Mexico, laundered within Mexico, and repatriated back into the U.S. financial system.

In July 2007, ICE initiated BCS surge operations in furtherance of Operation Firewall, expanding to additional locations both domestically and internationally. BCS surge operations were initiated at U.S. international airports, and on America's southern borders with a specific focus upon Brownsville, McAllen, Laredo and El Paso, Texas; Nogales, Arizona; and San Ysidro, California. BCS operations further expanded to air and sea cargo facilities in Miami, Florida, as well as internationally to Bogotá, Colombia and Mexico City, Mexico.

ICE also coordinates and provides training to state and local officers involved in highway interdiction efforts nationwide. ICE is currently participating in the Interstate 80 (I-80) Interdiction pilot project, which is a multi-agency initiative to impede the flow of illegal narcotics and illicit funds along the I-80 corridor, as well as the North Carolina Interstate Criminal Enforcement project, in which ICE partners with local highway patrol officers to stem the flow of illegal narcotics and bulk cash along Interstates 77 and 40.

Question: Smaller meth labs are turning to the Internet to import the chemicals to produce meth. In your testimony, you described the success of Operation Red Dragon, which targeted a United Kingdom criminal organization which had a computer server and hosting company located in the United States. ICE was able to identify correspondence between meth precursor chemical purchasers and the website operator. Does ICE share this information with the Organized Crime Drug Enforcement Task Force Fusion Center, which collects drug and financial data from local, state, and federal law enforcement agencies?

Answer: The information ICE developed as part of this investigation was disseminated directly to HIDTA (High Intensity Drug Trafficking Area) Clandestine Lab task forces throughout the United States for follow up investigation.

ICE does not currently participate in the Organized Crime Drug Enforcement Task Force Fusion Center (OCDETF OFC). However, intelligence developed as part of Operation Red Dragon was provided to the Special Operations Division for analysis and de-confliction. In addition, ICE does provide information from its Cyber Center to various federal, state, local and tribal agencies.

Question: Native Americans and Native Hawaiians have the highest meth use rates of any ethnicity in the United States. This trend has been compounded by the fact that the Mexican meth cartels have been specifically targeting Native American reservations for meth distribution. What has ICE and the Department of Homeland Security been doing to work with and to empower Tribal governments, particularly those on the border, to help them deal with the increased meth trafficking and use in their communities? What more can be done to involve the Tribes?

Answer: ICE works closely with other federal, state, local, and tribal agencies. ICE participates in the High Intensity Drug Trafficking Area- (HIDTA) funded task force called the Border Alliance Narcotics Network, which involves federal, state, local, and Tohono O'odham tribal police. In addition, the Department (including ICE and CBP) partners with the Department of Interior's Bureau of Indian Affairs on joint drug enforcement operations along the Southwest and Northern borders and also participates in the Meth in Indian Country Initiative sponsored by the National Congress of American Indians.

Currently, ICE Special Agents along with the "Shadow Wolves," are the only staffed federal law enforcement presence on the Tohono O'odham Reservation.

A recent example of ICE's work combating crystal methamphetamine smuggling and money laundering involving Hawaiians is Operation Garden ICE. Operation Garden ICE is an ICE- and DEA-led, multi-agency OCDETF-HIDTA investigation, targeting the Edward C. CACHOLA drug trafficking organization based on the Island of Kauai. From 2004 to 2007, CACHOLA and his main source, David K. BISHOP, imported approximately 10 pounds of crystal methamphetamine a month from Mexico and the Philippines to Hawaii.

On October 10, 2007, ICE Special Agent in Charge Honolulu agents, along with agents from the Federal Bureau of Investigation, Drug Enforcement Administration, United States Marshals Service, the Internal Revenue Service, and the Kauai County Police Department, executed 13 search warrants and arrested 13 subjects, including CACHOLA and BISHOP, for international drug smuggling and money laundering charges on the Hawaiian Islands of Kauai, Maui, and Oahu. In addition, ICE Special Agents from the Assistant Special Agent in Charge Office in Sacramento, California, executed four search warrants and arrested four subjects in the Sacramento area as part of this investigation.

The 17 subjects arrested are U.S. citizens. The search warrants executed in both areas resulted in the seizure of seven firearms, five vehicles, two ounces of crystal methamphetamine and \$1,091 in U.S. currency.

Question: We know that the meth epidemic started on the West Coast in Washington, California and Oregon and has spread east. Has it now hit the East Coast and where do you see some of the hardest hit states?

Answer: ICE Special Agents conduct investigations and use investigative techniques that combat international methamphetamine smuggling. ICE focuses on methamphetamine smuggling cases with a clear defined nexus to an international border. As a result, ICE investigations tend to be centered along the Southwest border and involve bulk-seizures of methamphetamine and its precursor chemicals. The Drug Enforcement Administration is the lead entity for domestic methamphetamine production, distribution, and use. Nonetheless, ONDCP has reported that methamphetamine is now available throughout the United States, including on the East Coast.

Question: The Combat Meth Act has been in effect for a year and the effect on home-grown labs has been remarkable but we all know we still have a significant meth problem, with much of the drug being trafficked from Mexico. What additional legislation would you recommend to close any loopholes to Combat Meth Act and other meth laws in order to reduce the amount of meth on our streets?

Answer: A common method to obtain the precursor chemicals ephedrine and pseudoephedrine is to abstract them from cold and sinus medications. The subjects in Operation Red Dragon were able to purchase large quantities of these medications without being detected by law enforcement due to the lack of electronic tracking systems at retail pharmacies to document their purchases. While the requirement under the Combat Methamphetamine Epidemic Act to maintain a log for pseudoephedrine and ephedrine purchases was a productive step in curbing access to meth precursors, amending the requirement to stipulate that the log be electronic would greatly facilitate law enforcement efforts. The only way the subjects were identified and arrested was through additional purchases of precursor chemicals through the Internet.

Furthermore, the Combat Methamphetamine Epidemic Act stipulated requirement to report the top five importers and exporters of pseudoephedrine and ephedrine could be expanded to include discussion of a broader list of countries that are at high risk of diversion due to a lack of reported data, law enforcement case reporting, or intelligence information.

ICE fully supports the many other United States Government initiatives that combat methamphetamine trafficking in the United States. DEA and the Office of National Drug Control Policy (ONDCP) could provide additional information on the steps they are taking to address methamphetamine production, trafficking and abuse.

Question: The United States has provided significant funding and assets to the Government of Mexico for counter-narcotics and judicial training but drug trafficking organizations continue to pour over the Southwest Border. Without getting into the possible future aid package currently being discussed, what additional assistance is being provided to the Mexican government to help them combat meth production and trafficking?

Answer: In 2006, Michael Chertoff, Secretary of Homeland Security, adopted the Border Enforcement Security Taskforce (BEST) initiative in response to the increased violence along the Southwest border. BEST incorporates partnerships with the Drug Enforcement Administration, Bureau of Alcohol, Tobacco, Firearms and Explosives, Federal Bureau of Investigation, U.S. Marshals Service, U.S. Attorney's Office, as well as state, local and foreign law enforcement agencies.

Currently there are five BESTs situated along the U.S.-Mexico border: Laredo, El Paso and Rio Grande Valley, Texas; Tucson, Arizona; and San Diego, California, with future plans of expanding the BEST concept to the Northern border. Each of the BESTs operate independently, combating the specific threats posed by cross-border criminal organizations within their geographic area of responsibility.

Currently, the Government of Mexico (GOM) has committed to detail Mexican law enforcement officers to be embedded within all of the BESTs located along the Southwest border. As part of this collaborative effort, one Mexican law enforcement officer is already actively participating in the Arizona BEST. These Mexican law enforcement officers will work jointly with BEST agents to combat cross-border criminal activity that impacts both the United States and Mexico.

ICE also established the Border Liaison Officer Program (BLO) in order to establish official ICE points of contact for Mexican federal and local law enforcement agencies along the Southwest border. BLO has been implemented in five ICE offices along the Southwest border to sustain an open and cooperative working relationship with foreign and domestic entities from all levels of government while enhancing bilateral capabilities to effectively respond to cross-border criminal activity. BLO is responsible for the sharing of time sensitive investigative concerns, intelligence, communications, and officer safety issues.

Additionally, on March 3, 2006, a bi-national action plan to combat border violence and improve public safety was signed by Secretary Chertoff and Carlos Maria Abascal Carranza, then-Mexico Secretary of the Interior. This action plan set forth goals and objectives to ensure that the appropriate law enforcement agencies of the respective governments work together to provide an effective, comprehensive and joint response to incidents of cross-border violence and crime.

In response to the action plan, DHS and Mexico's national intelligence and security agency created a bi-national Headquarters Working Group to oversee the development and implementation of Border Violence Protocols (BVPs) along the Southwest border.

BVPs have been implemented by DHS and GOM at, and between, the ports in the following areas: Laredo, Texas; Tucson, Arizona; Yuma, Arizona; El Centro, California; El Paso, Texas; San Diego, California; and Rio Grande Valley, Texas.

Question: The International Narcotics Control Board (INCB) assembles an annual list of country licit requirements for meth precursor chemicals which is then used to compare against company records to show possible diversion points. This year 80 countries are participating in the list but there are some very noticeable gaps that are ripe for diversion. What, if anything, is the State Department doing to urge non-participating countries to participate in this process?

Corrupt government and company authorities are often contributing factors in the continuation of illicit shipments. What steps are being taken to address these contributing factors?

Currently, the INCB is urging its member states to provide this information but there is no mandatory requirement for participation. Are stronger efforts being pursued to hold rogue nations and rogue companies accountable for illegal diversions of precursor chemicals?

Answer: ICE does not have information to offer on this subject. The Department of State is the lead entity for this issue.

Question: Senator Feinstein and I introduced legislation that would double and in some cases triple the penalty for those who market drugs to children. Is there any thing else the federal government can do to help prevent candy flavored meth from infiltrating and growing in other states?

Answer: The federal government must continue to aggressively investigate and prosecute those individuals and organizations who seek to smuggle, manufacture, distribute and sell methamphetamine in any form. Additionally, while ICE has not encountered candy-flavored methamphetamine in any of its seizures along the Southwest border, it fully supports increased penalties to act as a strong deterrent for those who market drugs to children.

Question: What has been done to coordinate money-laundering investigations between DEA and ICE?

Is there an effort underway to update the MOU ensuring that our investigative coverage of bulk cash smuggling and money laundering is as up to date as needed? If not, why not?

Answer: The ICE Financial, Narcotics and Public Safety Division oversees the Money Laundering Coordination Center (MLCC), which serves as the clearinghouse for ICE undercover money laundering operations, many of which target the Black Market Peso Exchange (BMPE). The MLCC serves as a repository for identifying information that is

derived as a result of these operations. The MLCC also serves as a deconfliction mechanism for the 26 ICE field offices conducting money laundering operations. In addition, ICE money laundering investigations are also coordinated in several ways with DEA:

Currently, 12 ICE Special Agents and 4 ICE Senior Intelligence Analysts are assigned to DEA's Special Operations Division (SOD) in Chantilly, Virginia. One of the Special Agents serves as the Assistant Special Agent in Charge of financial investigations. SOD serves as a clearinghouse for telephone and bank account numbers targeted by various U.S. law enforcement agencies in the course of financial, narcotics, and other investigations. As a result, crossovers are easily identified. Once identified the respective case agents are notified and investigative efforts coordinated in order to increase the scope and effect of the investigations.

Besides SOD, ICE also participates in a number of law enforcement de-confliction centers nationwide such as Narcotics Information Joint Agency System in South Florida and Safenet in New York City. ICE provides these centers with target and location data primarily for officer safety reasons; however, it also serves to identify common targets of investigations. These coordination efforts often result in an expansion of the investigative goals of both cases, significantly increasing the impact of enforcement actions on criminal organizations.

There is no effort underway to update the MOU between DEA and U.S. Customs (now ICE). The MOU accurately reflects the jurisdictional authorities of each agency involved in money laundering and there is no need to renegotiate the agreement merely to change the name of the parties involved. The Homeland Security Act's Saving Clause (section 1512, now codified at 6 USC 552) clearly preserved ICE's interests in the agreement. In addition, there is no need to amend such an MOU to include bulk cash smuggling because, by definition, this is a smuggling offense. ICE has clear investigative jurisdictional authority on all smuggling cases.

On December 19, 2007, ICE and DEA met to work on the U.S. MEXICO COUNTER-DRUG COOPERATION: FLOW OF BULK CASH INTO MEXICO action plan. The strategy will be the initial building block upon which the full implementation plan to attack the flow of illicit proceeds into and through Mexico will be built.

**Opening Statement of Senator Mike Crapo
“Breaking the Methamphetamine Supply Chain:
Meeting Challenges at the Border”**

September 18, 2007

I would like to thank the Chairman for holding this important hearing as well as the witnesses for taking time to be here today. I am especially pleased to see Mr. Siebel here who, as many of us know, is highly respected for his work with the Montana Meth Project. As the Chairman and Mr. Siebel know, Montana and Idaho are two states that have been overwhelmingly affected by meth production, use and addiction. Our rural communities have been hit particularly hard by the demand and presence of this lethal drug, creating major challenges for law enforcement, health and welfare and environmental protection agencies, not to mention our families, school systems and entire communities.

I have been approached by police officers, community leaders, health advocates, school administrators and criminal justice leaders about the severe toll that this drug extracts from our citizens, particularly teenagers and young adults. They have witnessed relationships being destroyed, families torn apart, and small towns across Idaho suffering from a drug that threatens our neighborhoods, friends and families. This problem has grown in intensity over the past decade, and I am determined to do everything I can to help those in my state and across the country fight back against this scourge in our communities.

In 1999, former Idaho Governor Dirk Kempthorne spearheaded a statewide initiative to fight meth production, coordinating regional and state level law enforcement efforts. These statewide efforts have proven highly successful. In 2000, 186 meth labs were seized. In 2004, the number had dropped to 38 thanks to this enhanced coordination strategy. Law enforcement agencies across my state have told me that meth lab seizures are now at an all-time low, which has resulted in less danger to neighborhoods and communities, as well as to environmental protection workers who are responsible for doing clean up of these sites after they are seized by law enforcement.

Overall, as domestic production has decreased significantly, the threats associated with it have gone down as well. However, as everyone on this panel and the witnesses before us know, as long as there is demand, there will be a plentiful supply of meth. Not surprisingly, production has now begun to shift out of the United States and into Mexico, where the drug is produced in large quantities in clandestine laboratories called “super labs.” While production has diminished in our communities, the problem of meth on our streets has not gone away.

Demand dictates supply, and, chillingly, meth has found a home in towns and cities across the country. Rural areas and states have been hit particularly hard by this trend. Small towns in Idaho, Montana, Wyoming and other western states have been under siege by the meth epidemic. These are not communities with large police forces, massive revenue bases and specialized departments and offices to fight back.

Recently, an Idahoan with over 20 years experience working with drug-endangered children shared an idea with me on how to best fight the meth problem across the country. His recommendation was that the federal government should assist local communities in forming multi-organization, school, parent and agency task forces to educate children and adults about the perils of meth addiction. He also suggested that these task forces stress the need to report the presence of labs and those selling and using meth in the community. In Idaho, this approach has been the most effective way to combat meth problems in rural communities. Educating people before they try meth and communicating a zero tolerance policy, coupled with severe penalties for breaking the law, will reduce demand and dry up supply.

The Combat Meth Act has played a large role in reducing domestic production in Idaho and other states, but meth continues to ravage our communities with little relief in sight. Rural communities and states continue to be affected by the presence of this drug, a situation that will require an increased effort from the federal government to bring an end to meth use and production in these places. This hearing is an opportunity for us to discuss how the federal government can provide more support to the small towns and communities across America that have been devastated by this terrible drug.



STATE OF IOWA

CHESTER J. CULVER
GOVERNOR
PATTY JUDGE
LT. GOVERNOR

OFFICE OF DRUG CONTROL POLICY
GARY W. KENDELL, DIRECTOR

Senate Finance Committee Hearing

“Breaking the Methamphetamine Supply Chain: Meeting Challenges at the Border”

Gary W. Kendell
Director, State of Iowa Governor’s Office of Drug Control Policy
Des Moines, Iowa

September 18, 2007

Mr. Chairman Baucus, Mr. Ranking Member Grassley and members of the Committee, I am so very pleased to appear before you today on behalf of the State of Iowa to speak with you about how methamphetamine is continuing to affect the State of Iowa and so many of our communities.

I am the Director of the Iowa Governor’s Office of Drug Control Policy. The primary function of my office is to coordinate all statewide substance abuse prevention and treatment programs and drug enforcement programs. I also act as the State Administering Agency for the Justice funding that comes to Iowa from the federal government as well as for a number of other small funding streams. Prior to my appointment I was an elected county attorney, in Warren County, Iowa, a county of approximately 40,000 people that shares a border with Des Moines and is part of the Des Moines metropolitan area. Prior to that, I was an assistant county attorney in the Drug and Gang Unit of the Polk County Attorney’s Office which is the county where Des Moines is located. Before Polk County, I was a Byrne-JAG funded prosecutor for the Warren and Marion County Drug Task Force. I have spent over ten years prosecuting primarily drug

offenses. I have worked in urban, suburban and rural court systems and communities in Iowa and I am well acquainted with the varying challenges of each setting.

WHERE WE HAVE BEEN:

It was in the early 1990s when methamphetamine really took off in Iowa. The domestic production of methamphetamine steadily increased, with the primary method of production being the ammonia-lithium reduction method. The number of methamphetamine labs seized by law enforcement reached its peak in Iowa in 2004 with an average of 125 methamphetamine labs seized each month. Even with this huge number of methamphetamine labs producing methamphetamine in the State, 80 – 85% of the methamphetamine in the State was being brought in by drug trafficking organizations from the southwestern United States and Mexico.

In 2004, new drug-related prison admissions were at a record high. In addition, the percentage of Iowa adults admitted to treatment with methamphetamine as their primary drug of abuse was at an all-time high of 14.6%.

With the passage of pseudoephedrine controls, first on the state level and then on the federal level with the Combat Methamphetamine Epidemic Act, the fever finally broke with regard to domestic production of methamphetamine in Iowa. In 2005, the monthly average decreased to 64 methamphetamine labs seized each month. In 2006, the month average decreased to 29 methamphetamine labs seized each month. The decline continues in 2007, with a year to date average of 12 methamphetamine labs seized each month.

This nearly 90% reduction in methamphetamine labs seized annually by law enforcement has truly been something to celebrate and be thankful for in Iowa.

WHERE WE ARE CURRENTLY:

In State FY2007, the total estimated federal and state funding in Iowa for substance abuse prevention and treatment and drug enforcement programming is approximately \$17,834,362 for prevention; \$49,333,375 for treatment; and \$35,879,174 for enforcement and adjudication.

These numbers do not include local funds expended or federal funds provided directly to local communities. This level of funding leaves us woefully short of meeting the needs in any of the areas concerned, i.e., enforcement, corrections, treatment and prevention.

As I previously mentioned, the number of methamphetamine labs seized by law enforcement in 2007 through August 31, is at an average of 12 labs per month, an almost 90% reduction from its peak in 2004. We have had significant reductions in the number of methamphetamine related child abuse and endangerment cases, as well as the amount of public money spent on methamphetamine related burn cases at the University of Iowa Hospital Burn Unit. It is also important to note the almost incalculable benefit from the reduced damage to the environment caused by these methamphetamine labs – keeping in mind that for every pound of methamphetamine produced there is 5-7 pounds of hazardous waste produced as well.

We have seen a slight (approximately 1% from 2004 to 2006) decline in the percentage of Iowa adults admitted to treatment with methamphetamine as their primary drug of abuse. Similarly, our new drug-related prison admissions have declined by approximately 180 individuals from 2004 to 2007. According to the Substance Abuse & Mental Health Services Administration (SAMHSA), Iowa ranks 3rd in the United States in treatment admissions for methamphetamine per 100,000 population. In addition, Iowa ranks 8th in the United States in the overall number of people admitted to treatment for methamphetamine.

Law enforcement in Iowa is still seizing an average of 12 methamphetamine labs a month and in my opinion that is still too many. We continue to pursue additional measures to help further reduce the occurrence of methamphetamine labs. Earlier this year, with congressionally directed funding, we successfully completed a program where we locked up the anhydrous ammonia tanks in all 99 Iowa counties. Scientists at Iowa State University in Ames, Iowa, developed a chemical lock using calcium nitrate, which when added to anhydrous ammonia, renders it basically useless in the production of methamphetamine (it reduces the yield to

approximately 2 – 3%). We are in the process of trying to identify funding to help us achieve widespread implementation of this valuable tool. Finally, we are working on the state level to obtain passage of legislation that would allow us to implement a real-time electronic tracking system for pseudoephedrine sales, to address the loopholes that exist in the current law that has led to the practice of “smurfing”, where offenders go from store to store buying their limit of pseudoephedrine at each store until they obtain a sufficient quantity to make their “cook.”

In addition, due to the reduction in domestic production, we are now looking at the fact that approximately 90 – 95% of the methamphetamine in Iowa is being brought into the State from the southwestern United States and Mexico. In 2007, almost all of the methamphetamine in Iowa is crystal methamphetamine or “ice” and the trafficking organizations have stepped up their supply to meet the demand created by the crackdown on domestic labs. The “ice” being seized in Iowa is averaging approximately 42% purity with some large seizures in the 90+% range. In Des Moines, Iowa, (2006 estimated population – 534,230), an ounce of “ice” is selling for approximately \$1,200 and in Fort Dodge, Iowa, (2006 estimated population – 25,466), an ounce of “ice” is selling for approximately \$900.

With the passage of pseudoephedrine restrictions and the resulting decline in the numbers of methamphetamine labs, it was the hope of law enforcement in Iowa that we would be able to take those resources previously being used specifically for methamphetamine labs and redirect them to investigating and pursuing the drug trafficking organizations. Unfortunately, due to the cuts in federal funding, i.e., Byrne-JAG and COPS Program specifically, as well as the loss and subsequent reduction of congressionally directed funding, that has not been possible. At the very time when Iowa was poised to be able to take on the trafficking organizations full force, our federal funding used for drug enforcement has been reduced to such a level that we have had to make cuts to our programs and now are doing everything we can to avoid having to make even further cuts.

I am so thankful for the efforts of the Senate and the House of Representatives to fund programs to state and local law enforcement and drug enforcement specifically. I know many of you recognize the importance of these programs and do everything within your power to fund these programs at the highest level possible. It is my opinion that the position of the current presidential administration with its attempts year after year to “zero out” programs like Byrne-JAG in the federal budget is misguided. These funding streams are vital to drug enforcement efforts on the state and local level, which directly impact drug enforcement efforts on the federal level. I want to take this opportunity to encourage you to fully fund the Byrne-JAG Program and COPS Program at their authorized levels.

Iowa is an excellent example of exactly how vital federal funding is to the state and local drug enforcement efforts, and in turn, the federal drug enforcement efforts. A large percentage of the federal justice funding that is received by Iowa goes to support the multi-jurisdictional drug task force program in the State. My office, the Governor’s Office of Drug Control Policy is the State Administering Agency (SAA) for this funding stream. We distribute these funds through a competitive grant process. Funds are awarded to multi-jurisdictional and multi-agency drug task forces on an annual basis. We currently have 20 multi-jurisdictional task forces funded this year in Iowa with a combination of federal, state and local dollars. These task forces officially serve 67 of Iowa’s 99 counties, with unofficial coverage extending to even more counties. It is estimated that approximately 74% of cases opened by the Iowa Department of Public Safety Division of Narcotics Enforcement originated as investigations of a multi-jurisdictional drug task force. It is also a fact that the majority of cases opened by the Iowa Department of Public Safety Division of Narcotics Enforcement are adopted by a federal agency and prosecuted in federal court.

My purpose in discussing this is to illustrate the integral role that each level of enforcement has on the overall drug enforcement effort in the United States. Federal drug

enforcement would not be nearly as successful without the involvement and assistance of the state and local drug enforcement agents and vice versa. Similarly, while border-focused drug enforcement efforts are obviously important, drug enforcement efforts in the State of Iowa and every other state in the country are vital to the overall success of drug enforcement on the national level.

An excellent example of this is "Operation Ice Age", which was recently made public by the United States Attorneys Office for the Southern District of Iowa. The case involved 4 federal drug trafficking indictments charging 22 individuals with drug trafficking and related offenses in Polk County, Iowa. These cases were made by state and local law enforcement agents and then adopted by the federal agencies for federal prosecution. Seventeen of the twenty-two defendants are subject to detainers by Immigration and Customs Enforcement (ICE) because they are Mexican nationals illegally in the United States. This case resulted in the seizure of approximately 20 pounds of methamphetamine, 4 handguns, an assault rifle, and approximately \$576,000 in United States currency. This is a major drug trafficking organization that is no longer operating in the Des Moines metropolitan area, only because of the cooperative efforts of the state, local and federal law enforcement agents working in the state of Iowa.

This case demonstrates the important role that state and local drug enforcement officials play in the larger drug enforcement effort on the national level. It also demonstrates the fact that we, in Iowa, are dealing with the similar types of "border" issues as the border states are when it comes to illegal drug trafficking and the source of illegal narcotics in Iowa. The fact of the matter is that regardless of the level of resources dedicated to border protection, there is always going to be some amount of illegal narcotics that makes it through the border and into the United States and it is because of this fact that we need to continue, and ideally increase, funding for non-border states like Iowa to help increase interdiction efforts and other activities targeting the drug trafficking organizations as they make their way across the country.

The drug enforcement effort is, and needs to be, a multi-pronged system involving active participation by federal, state and local law enforcement. It is also a multi-pronged system in the sense that it involves enforcement in our border states as well as the non-border states. Each of these levels of enforcement is important to the greater goal in its own way. One level, without the active participation of the other levels, will not be as successful.

Iowa is not currently seeing any methamphetamine coming into the state from the northern border of the United States. We know that the trafficking organizations are establishing their production and supply routes in Canada and are in fact, transporting controlled substances across the northern border, however, with the exception of some occasional marijuana from British Columbia "BC Bud", the northern border is not the supply route for Iowa. The reason for this is simple, the drug trafficking organizations have such an established and ingrained distribution network in Iowa and other states in the Midwest and things are going so well for them at the current time, they don't need to bring it in from the northern border. If Iowa and other Midwestern states ever do have sufficient resources to crackdown on the existing distribution network, then the trafficking organizations will, no doubt, adjust their operations and begin making use of the northern border networks that they are currently establishing.

It is important to remember, drug enforcement isn't the only factor that affects this problem with which we are faced. Demand reduction is an extremely important aspect of this issue as well. I want to take this opportunity to encourage you to provide additional funding to state and local jurisdictions for treatment and prevention efforts. We are now starting to see some scientific study results that indicate that treatment can indeed work for methamphetamine addicts, provided that there are enough resources to provide the proper treatment for the length of time necessary. There is hope for recovery for methamphetamine addicts.

I commend the Office of National Drug Control Policy (ONDCP) for their recently launched public awareness media campaign regarding methamphetamine – it provides a message

of hope for methamphetamine addicts – that it is possible to quit and it is worth trying to quit. Iowa was selected as one of eight states where this awareness campaign will be run and we are very thankful for that assistance ONDCP is providing. We have 22 locally-based prevention organizations that serve Iowa's 99 counties. They are all on shoestring budgets and do amazing things with the limited resources they have.

On the treatment front, due to lack of resources, we continue to be unable to serve all the individuals who are in need of drug treatment. However, we have some very successful treatment programs in Iowa, that we hope to replicate if the funding situation ever allows us to do so. One example of successful treatment occurring in Iowa is jail-based treatment. Iowa currently has jail based drug treatment programs at three jail facilities in Iowa. The results of these programs are impressive, both in success in treating individuals and in dollars saved as compared to incarceration. A second example of successful treatment occurring in Iowa is residential treatment facilities for offenders with co-occurring disorders. The 1st Judicial District Department of Correctional Services is running one such program in Waterloo, Iowa. They are addressing offenders' mental health and substance abuse issues in their very successful program. This program was recently recognized by the National Criminal Justice Association as an outstanding criminal justice program and has received similar recognition in the past by the American Corrections Association. I believe it is important to note that both of these programs were started with and developed using Byrne-JAG money.

WHERE DO WE NEED TO GO FROM HERE:

Looking to the future, we will continue to pursue ways to further reduce our domestic production of methamphetamine, including real-time electronic tracking of pseudoephedrine purchases. In addition, we continue to be very concerned with the increasing amount of methamphetamine that is being brought into Iowa by the trafficking organizations from the southwestern United States and Mexico. One of the areas of great concern to us in this regard is

commercial trucking coming into the United States from Mexico. If funding and resources become available, we will expand our efforts in the area of interdiction and other tactics aimed at dismantling the drug trafficking organizations in Iowa. With what limited resources we have, we will continue to try to replicate successful programs across our state, including drug courts, jail-based treatment, co-occurring treatment opportunities, drug endangered children teams, state and local prevention efforts, multi-jurisdictional drug task forces and interdiction efforts, to name a few. We continue to try to identify more stable funding streams on the state and local level and we continue to allocate what resources we are able to these very important programs.

On the state level, one of our greatest needs is the financial assistance of the federal government, preferably through the block grants for substance abuse treatment and prevention and through programs like Byrne-JAG for enforcement. These programs provide the states with the flexibility to use the funding for issues that are problems specific to each state. States need the levels of funding received from these sources to be increased and they need to be stabilized, so that there is a level of certainty regarding the ongoing nature of the funding.

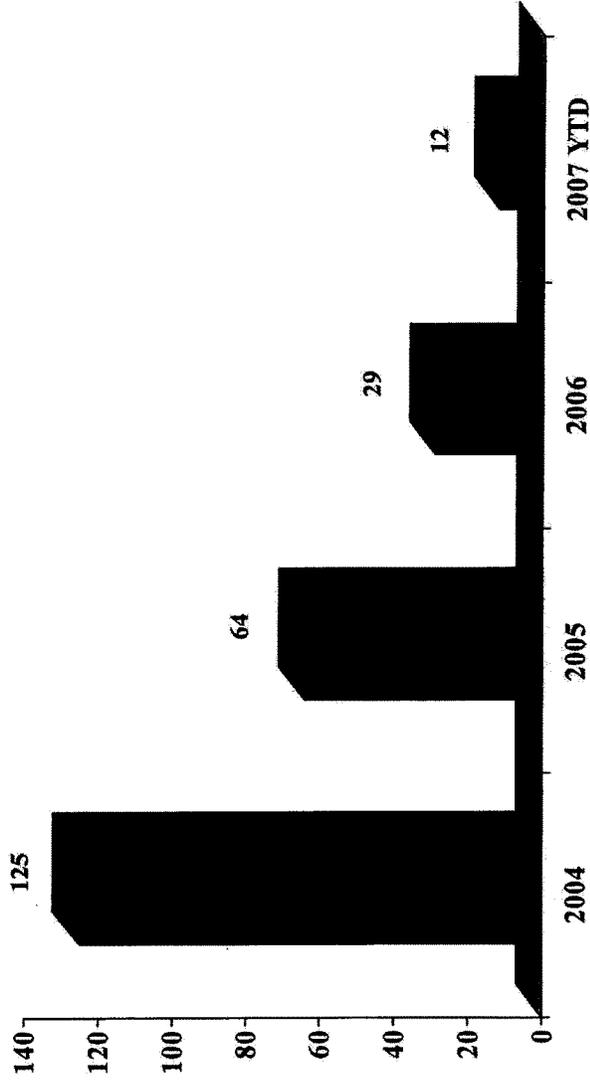
Methamphetamine is a national problem in the United States, but some of the best and most likely success we can have in combatting this national problem is through state and local drug enforcement, as well as implementation of treatment and prevention programs that work. State and local jurisdictions cannot do this without the assistance of the federal government.

Thank you for allowing me to speak to you today, it has truly been my pleasure. Thank you for your efforts to provide much needed support and funding to state and local governments to help us deal with problems like methamphetamine. Most of all, thank you for your service to the United States of America.

Iowa Meth Lab Incidents

Monthly Average by Calendar Year

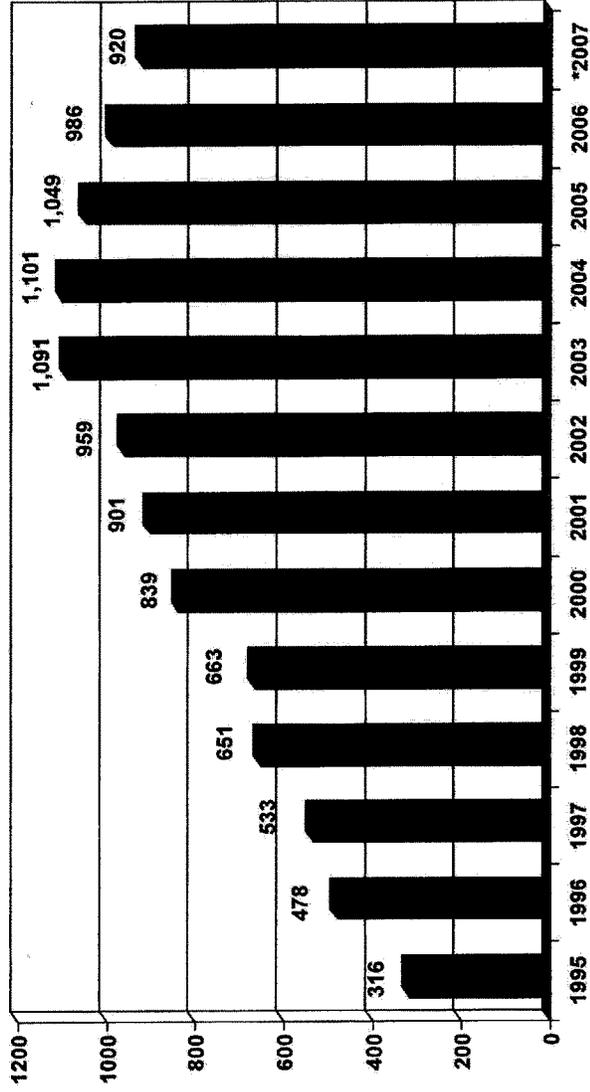
Source: Iowa Department of Public Safety, Division of Narcotics Enforcement (8-31-07)



Iowa's pseudoephedrine control law was enacted May 21, 2005.

Iowa Drug-Related Prison Admissions by State Fiscal Year

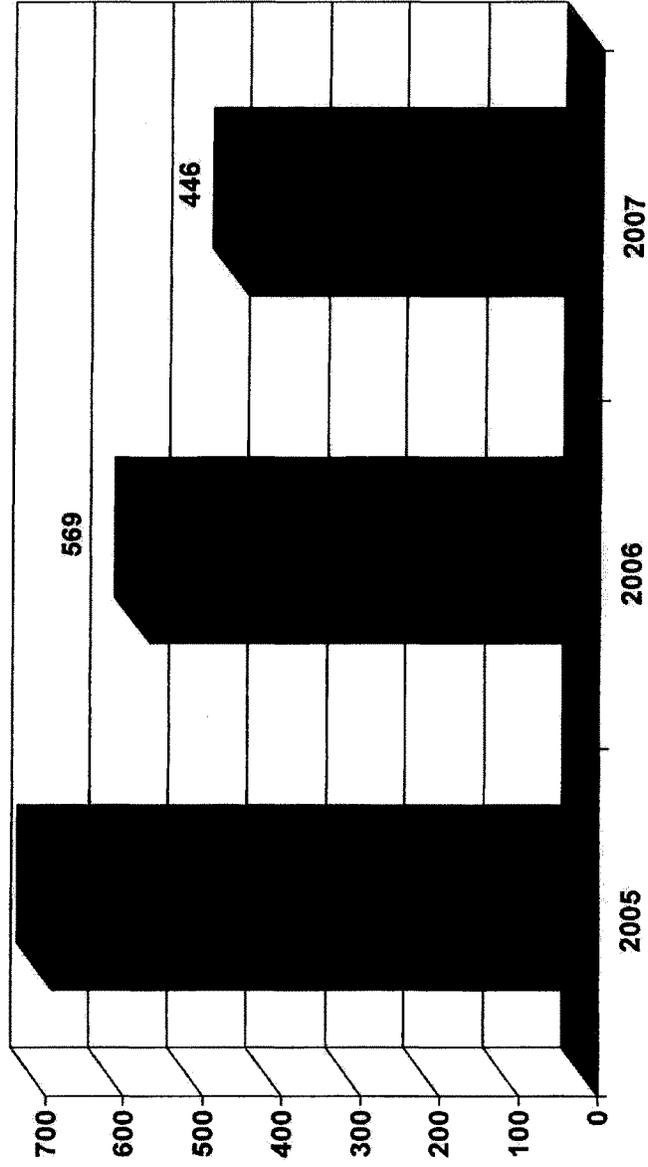
Source: Iowa Department of Corrections & Department of Human Rights, Division of Criminal/Juvenile Justice Planning



*2007 projection is based on data for first half of fiscal year.

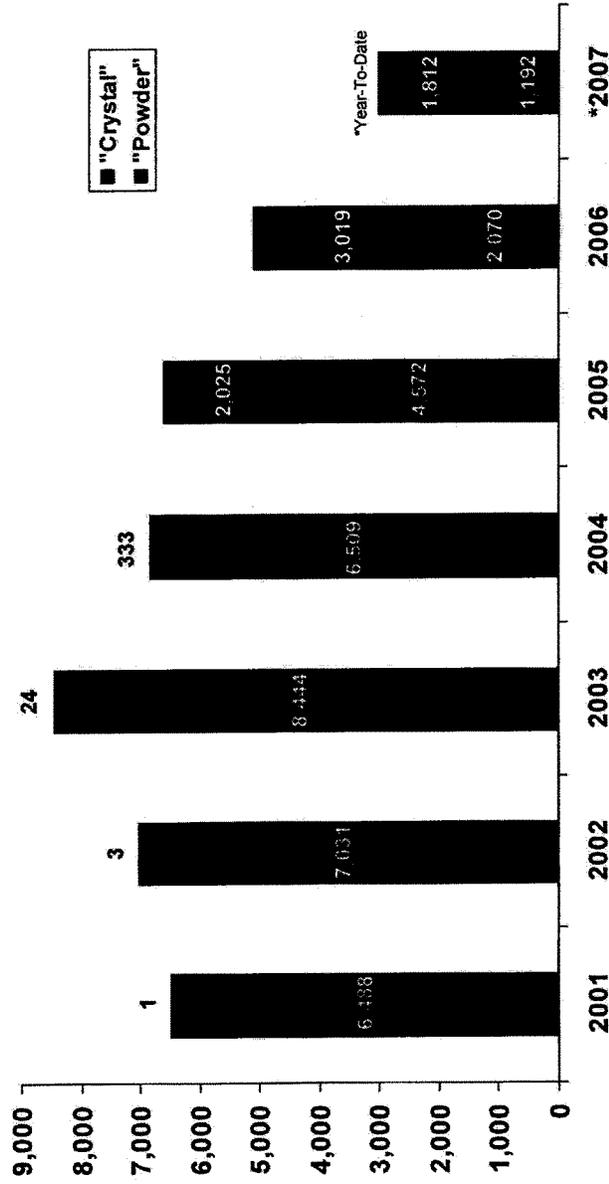
Iowa Meth-Involved Prison Commitments by State Fiscal Year

Source: Iowa Department of Human Rights, Division of Criminal & Juvenile Justice Planning
693



Forms of Meth Seized in Iowa by Calendar Year

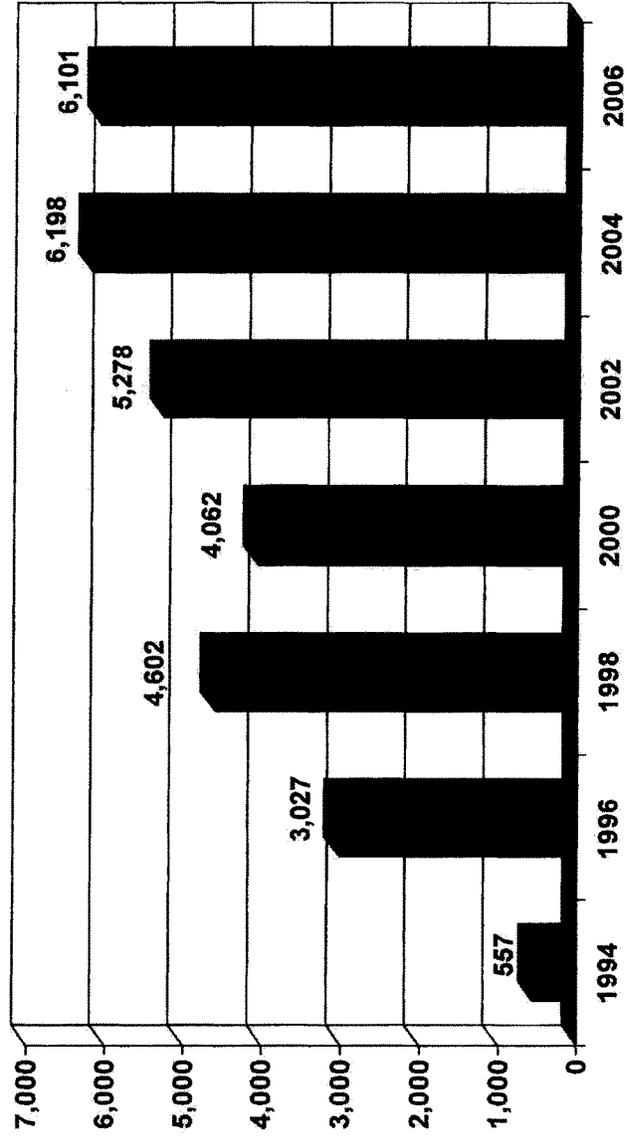
Source: Iowa Department of Public Safety, Division of Criminal Investigation Laboratory (9-14-07)



As analyzed by the State's crime lab, "crystal" meth (a.k.a. "ice") typically is a much purer form of the drug smuggled into Iowa.

Iowa "Primary" Meth Treatment Clients Admissions/Screens by State Fiscal Year

Source: Iowa Department of Public Health



SFY 2007 Iowa Drug Task Force Results

<u>Drug Seized/Eradicated</u>	<u>Quantity</u>	<u>Estimated Street Value</u>
Cocaine	41.6 Kilograms	\$6.2 million
Crack	4.1 Kilograms	\$1.1 million
Heroin	0.02 Kilograms	\$3,500
Processed Marijuana	3,146.6 Pounds	\$5.0 million
Commercial Marijuana Plants	6,208 Plants	\$9.9 million
Wild Marijuana Plants	2,075 Plants	NA
Meth/Amphetamine	61.1 Kilograms	\$7.9 million
Ecstasy	18,428 Dosage Units	\$276,420
Pharmaceuticals	97,198 Dosage Units	\$485,990
Total Drug Seizures		\$31.2 million
<u>Meth Labs</u>	<u>Volume</u>	<u>vs. Previous Year(s)</u>
Total Meth Lab Responses	363	vs 410 in '06 & 906 in '05
<u>Criminal Sanctions</u>	<u>Volume</u>	<u>vs. Previous Year(s)</u>
Subjects Arrested	3,905	vs. 3,573 in '06 & 3,760 in '05
Subjects Charged	3,610	vs. 3,252 in '06 & 4,133 in '05
Subjects Convicted	2,194	vs. 2,139 in '06 & 2,434 in '05

United States Senate Committee on Finance Hearing
Breaking the Methamphetamine Supply Chain:
Meeting Challenges at the Border
September 18, 2007

Questions Submitted for the Record

Questions for Mr. Kendall:

Senator Baucus

- 1) In your testimony, you discussed "Operation Ice Age," where 22 individuals were recently charged with drug trafficking of approximately 20 pounds of meth in Polk County, Iowa. Seventeen of the 22 individuals are Mexican nationals illegally in the United States. How rapidly do you see the transition from localized meth distribution to a more organized gang approach?

The transition from localized meth distribution to a more organized gang approach was seamless. In 1994, when domestic meth labs were at their peak in Iowa, 80-85% of the meth in the state was being brought into the state from the southwestern United States and Mexico, even then. Since 1994, as the number of meth labs seized by law enforcement in Iowa has declined there has been a corresponding increase in the amount of meth being brought into the state from the southwestern United States and Mexico by the drug trafficking organizations. Presently in Iowa 98% of the methamphetamine seized by law enforcement and analyzed by the State of Iowa Division of Criminal Investigation Laboratory is crystal meth or "ice" that is being brought into the State by the drug trafficking organizations. A mere 2% of the meth seized by law enforcement and analyzed by the DCI Lab is domestically produced. It was in the early 1990s that the drug trafficking organizations from Mexico and the southwest United States really began in earnest establishing their criminal network in Iowa. They have spent the years since then solidifying their presence in Iowa and strengthening their criminal network in Iowa and the Midwest generally. When Iowa began experiencing the reduction in domestic production, the existing network established by the drug trafficking organizations simply increased the amount of product they were shipping into Iowa – stepping right up to meet the demand in the state. It was just prior to this time, in 2002-2003 that the very significant cuts in the federal justice programs began. So, just when Iowa was poised to be able to direct our law enforcement attention full-force at the drug trafficking organizations, we experienced drastic cuts to the federal money that we were receiving to support our drug enforcement efforts. The funds that my office (Governor's Office of Drug Control Policy) uses to support multi-jurisdictional drug task forces and other statewide narcotics enforcement programming, i.e., interdiction efforts, etc., has been cut by 50% since 2003.

- 2) Is law enforcement able to keep up with this growing threat? Please describe what resources could enhance law enforcement's efforts.

Law enforcement has not been able to keep up with this growing threat. With the drastic cuts in federal justice program funds, like Byrne-JAG and COPS, we have been forced to cut drug enforcement efforts and programs. There are many things that could be done to enhance law enforcement's efforts. One very important step that needs to be taken is to restore funding of the Byrne-JAG funding to the authorized level of \$1.1 billion annually. This program is one of the most effective and efficient federal funding programs in existence. The bang for the buck received through this program is better than any other federal justice program, in my opinion. It is frustrating that the PART analysis done on the Byrne-JAG program continues to come back with an ineffective rating. This is because of a flaw in the way the PART analysis is being implemented with regard to Byrne-JAG. The only thing the PART analysis looks at it activities occurring in Washington DC at BJA. Every local jurisdiction submits performance measures regularly from programs that are supported by funds from Byrne-JAG. Apparently, these performance measures are not being included in the PART analysis, and, instead the only numbers being included are the numbers from the Byrne-JAG direct awards to local jurisdictions that BJA administers itself. The flexibility of the Byrne-JAG program is the secret to its success. It allows agencies like mine to truly coordinate the distribution and spending of federal funds on a statewide basis, allowing us to get the biggest bang or most efficient use of the funding provided by the federal government. The program allows states to use the funding for criminal justice issues that are specific to our individual state. A second very important step that needs to be taken is to restore funding the of COPS program to the authorized level. A third step that would enhance law enforcement's efforts is to increase funding for the High Intensity Drug Trafficking Area (HIDTA) program administered by the Office of National Drug Control Policy and require the additional funding to be spent on existing programming within HIDTA, rather than being spent on new programming that ONDCP wants to develop. The HIDTA program is a proven success and additional money needs to be directed to the existing HIDTA programming to keep pace with increasing personnel and operating costs in particular. If funding is allocated for discretionary or competitive grant award programs, a step that could be taken that would enhance law enforcement's effort would be to direct much of that funding toward drug enforcement programming aimed at curtailing the activities of the drug trafficking organizations, i.e., interdiction efforts. There are many things that could be done to enhance law enforcement's efforts, but, I would encourage you to look to put additional funding toward existing programs like Byrne-JAG, COPS and HIDTA.

- 3) You mentioned that Iowa is having success with its jail-based treatment program. Please explain Iowa's approach in treating individuals and the dollars saved compared to incarceration.

As reported by the National Association of State Alcohol and Drug Abuse Directors May 2007 newsletter, "A 2006 cost analysis study of the Iowa Jail-Based Substance Abuse Treatment Program examined the cost of treatment provision compared to the cost of a prison sentence. The average daily cost to house an inmate in a State prison facility in Iowa was determined to be \$64.02. The average cost for a client in the Jail-Based Substance Abuse Treatment Program was determined to be \$30.19. The majority of the jail based treatment clients interviewed for the study maintained abstinence, did not get rearrested, and obtained full-time employment. In particular: The Client abstinence rate increased by 82.4 percentage points from admission to discharge; The client abstinence rate was 75.5% one year after discharge; Over 80.2% remained arrest free one year after treatment; More clients were employed full-time one year after treatment."

In addition, I have attached a copy of the Cost Analysis Study of the Iowa Jail-Based Substance Abuse Treatment Program hereto, to provide you with further detailed information regarding the success in Iowa with this program.

Senator Grassley

- 1) Are you hearing about any meth coming into Iowa from the northern border with Canada or is it just coming in from the southwest border with Mexico?

Iowa is not currently seeing any methamphetamine coming into the state from the northern border of the United States. We know that the trafficking organizations are establishing their production and supply routes in Canada and are in fact, transporting controlled substances across the northern border, however, with the exception of some occasional marijuana from British Columbia "BC Bud", the northern border is not the supply route for Iowa. The reason for this is simple, the drug trafficking organizations have such an established and ingrained distribution network in Iowa and other states in the Midwest and things are going so well for them at the current time, they don't need to bring it in from the northern border. If Iowa and other Midwestern states ever do have sufficient resources to crack down on the existing distribution network, then the trafficking organizations will, no doubt, adjust their operations and begin making use of the northern border networks that they are currently establishing.

- 2) How is law enforcement addressing the changes in smurfing techniques that meth manufacturers are now using?

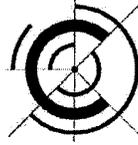
Frankly, there is not a lot being done in this regard as far as a consistent law enforcement effort. As with everything, law enforcement efforts in this area tend to be resource driven. If law enforcement receives a specific complaint about an individual believed to be manufacturing methamphetamine, as part of their investigation law enforcement will look at where the suspect is buying pseudoephedrine and in what quantities. In addition, if an agency or task force has a slower time or if they have some additional funds for overtime, they will go out to pharmacies and review the logbooks to collect evidence of individuals buying in excess of the permitted amount of pseudoephedrine and then take that information to assist in investigating the subject further. Currently, it is a very time intensive process and not something that law enforcement agencies in Iowa can afford to spend a lot of time doing.

Because of this current situation, the Governor's Office of Drug Control Policy and many in law enforcement in Iowa are pursuing legislation on the state level that would allow us to implement a real-time electronic tracking system to monitor and stop the purchase of pseudoephedrine products over the allowable amount. We appreciate very much the efforts of Senator Grassley and Senator Durbine and others on the federal level to help provide funding to states to develop monitoring programs like the one we are proposing.

- 3) You stated in your testimony that ONDCP has begun airing ads in Iowa and 7 other states as part of its meth awareness media campaign. Considering there are more than eight states that are facing a meth crisis and ONDCP is only spending 10% of its budget toward this aspect of its media campaign, should ONDCP put more emphasis on educating the public on drugs like meth than what it currently does? Would this be helpful in prevention efforts or a hindrance? Would it be more helpful if the states were responsible for their own anti-meth ads with the federal government playing a supporting role?

Obviously, we are very thankful for what ONDCP is spending and that they are spending some of that in Iowa. We would like to see more resources directed toward methamphetamine, cocaine – both powder and crack, heroin and prescription drugs, than what is currently being spent in those areas. We would like to see even more of ONDCP's budget spent in Iowa as well as in more than just the eight states that were selected for this current meth media campaign. I believe any additional resources that are directed toward prevention efforts is a good thing. Obviously, we would prefer that the money be spent in the most effective manner to obtain the most benefit for the dollars spent. I believe that some federal level efforts are helpful in the area of meth prevention media campaigns, as it raises the media attention and hopefully the public's attention to the issue to have the federal authorities publicizing the issue. It would be nice, however, if the federal government could provide additional funding to states to

use for prevention programming specific to the most pressing issues in our individual states. Currently some federal money comes to states for this purpose through the Substance Abuse Prevention and Treatment Block Grant Program and we are very thankful for this assistance. It would be helpful if the SAPT block grant could be increased and if the ONDCP would designate some of its prevention budget to be passed through to the states for coordinated statewide prevention efforts as well.



**THE IOWA
CONSORTIUM**
FOR SUBSTANCE ABUSE RESEARCH AND EVALUATION

**— JAIL-BASED SUBSTANCE ABUSE —
TREATMENT PROGRAM**

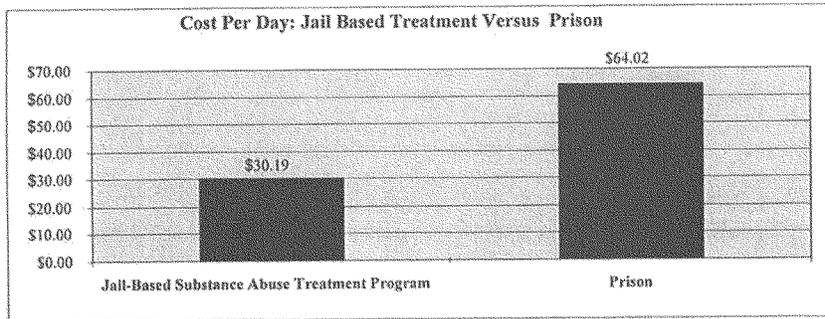
COST ANALYSIS STUDY

**PREPARED BY:
SUZY HEDDEN, BS, PROGRAM EVALUATION COORDINATOR
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Overview

The cost analysis study of the Iowa Jail-Based Substance Abuse Treatment Program provides an economic perspective on the cost of treatment provision compared to the cost of a prison sentence. The sample for this project includes the 408 clients admitted to the Jail-Based Substance Abuse Treatment Program between July 1, 2004 and June 30, 2005 at the 3 treatment agencies in Iowa involved in this program: United Community Services, Inc., Center for Alcohol and Drug Services, Inc., and Jackson Recovery Centers.

The Jail Treatment Program is less than half of the cost of prison. The average daily cost for a client in the Jail-Based Substance Abuse Treatment Program was \$30.19 compared to \$64.02, which is the daily rate to house an inmate in a state prison facility in Iowa.



The majority of the jail based treatment clients who were interviewed tend to maintain abstinence, do not get arrested, and obtain full-time employment. Client abstinence increased by 82.4 percentage points from admission and maintained a 75.5% rate at the 12 month follow-up. A large percentage of clients were arrest free at Interview 1 lowering somewhat at Interview 2, but remained high at 80.2%. More clients were employed full-time at the 12 month interview.

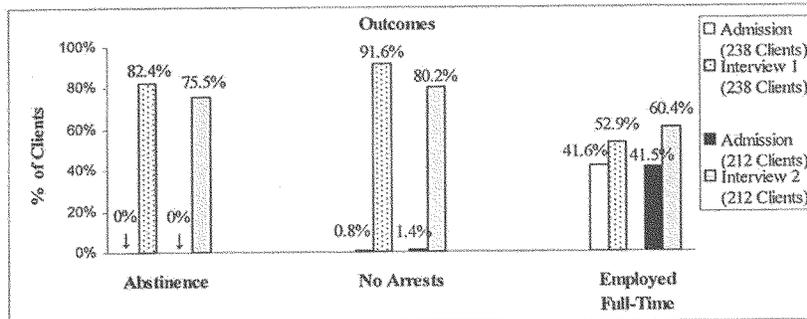


TABLE OF CONTENTS

1. Introduction.....	1
2. Method.....	1
Study Questions	1
Program.....	1
Sample Description.....	2
Measures	2
Cost Effectiveness Calculations.....	2
Diagram 1: Treatment Costs	2
Diagram 2: Cost of Incarceration in Jail.....	3
Diagram 3: Cost of Treatment in Jail.....	3
Diagram 4: Cost of Additional Time in Jail.....	3
Diagram 5: Cost of Time in Prison	4
Diagram 6: Average Cost of Additional Time in Prison	4
Diagram 7: Cost of Controlled Environments	5
Diagram 8: Cost of Time in Additional Controlled Environments.....	5
3. Results.....	5
Diagram 9: Average Daily Cost Per Client in Jail Treatment Program.....	6
Diagram 10. Cost Per Day Comparison.....	6
Diagram 11: Client Outcomes from Jail-Based Substance Abuse Treatment Program	7
Diagram 12. Comparison of Admission and Interview Outcome Data	7
4. Discussion.....	8

The Iowa Jail-Based Substance Abuse Treatment Program: Cost Analysis Study

An enhancement of the Jail-Based Substance Abuse Treatment Program Follow-up Evaluation

1. Introduction

The following cost analysis study of the Iowa Jail-Based Substance Abuse Treatment Program provides an economic perspective of the provision of substance abuse treatment and aftercare to incarcerated individuals in Polk, Woodbury, and Scott Counties. The analysis involved examining the costs of providing substance abuse treatment to incarcerated clients in county jails and continuing that treatment after release from jail followed by aftercare. The program, designed as a diversion to long prison sentences for drug-involved offenders, was initiated as a pilot in Polk County. The program was expanded to the other two counties and has proven a success through a follow-up evaluation that measures client abstinence, arrests and employment and several other outcomes. This analysis provides cost information on the aspects of treatment provision of the program compared to prison.

The Iowa Consortium for Substance Abuse Research and Evaluation (Consortium) conducted a cost analysis of the clients admitted to the Jail-Based Substance Abuse Treatment Program. The costs of the Jail Treatment Program were compared to the costs related to incarceration in prison, if the program did not exist as a diversion opportunity to prison, and clients served prison terms versus the program. The Consortium examined the costs of treatment, jail time, and recidivism compared to the costs of time in prison. The purpose of this project was to determine differences in the cost of the program, which involves treatment, support, and aftercare services, versus the cost of a prison sentence.

2. Method

Study Questions

Three questions are addressed as a result of this analysis: 1) What was the total cost associated with in-jail and post-release community treatment?; 2) Was participation in the Jail-Based Substance Abuse Treatment Program more cost effective than not participating?; 3) What conclusions can policy makers draw from the cost information presented in this study?

Program

The Jail-Based Substance Abuse Treatment program was established to deliver substance abuse treatment services to clients during incarceration and after release from jail. To determine effectiveness of treatment services, clients are tracked for two follow-up interviews that occur approximately 6 and 12 months after admission to the treatment program. Three treatment agencies in Iowa are involved in this program: United Community Services, Inc. (UCS), a Des Moines-based agency delivering treatment to clients at the Polk County Jail; Center for Alcohol and Drug Services, Inc. (CADS), an agency located in Davenport, Iowa delivering treatment to clients at the Scott County Jail; and Jackson Recovery Centers based in Sioux City, Iowa delivering treatment to clients in Woodbury County Jail.

Sample Description

The sample for this project includes all clients admitted to the Jail-Based Substance Abuse Treatment Program between July 1, 2004 and June 30, 2005. During this period, 408 clients were admitted to the program: 181 in Polk County, 132 in Scott County, and 95 in Woodbury County. Two hundred ninety-seven (72.8%) of the clients were male and 111 (27.2%) were female. The clients ranged in age from 18 to 61 with a median age of 32 years. This group of clients spent an average of 77 days in the in-jail portion of treatment and 212 days in the treatment program from admission to discharge.

Measures

The data gathered related to costs of treatment and costs related to incarceration were based on documented actual costs of the Jail Treatment Program and from costs reported by the County Jails and the Iowa Department of Corrections that are based on actual costs. The costs related to the Jail Treatment Program involve time and resources for substance abuse treatment and time and costs of incarceration in the county jails. When clients are released from jail, treatment continues and evolves into aftercare programming. If clients recidivate during this time, costs related to the controlled environment in which they are placed were added program costs. To calculate the alternate consequences to the Jail Treatment Program, a total state cost related to incarceration in prison was obtained from the Iowa Department of Corrections.

Cost Effectiveness CalculationsTreatment Costs:

Treatment costs were directly related to the actual costs of the Jail Treatment Program. Each treatment agency was awarded a contract by the State of Iowa to provide in-jail substance abuse treatment to eligible clients. Agencies were reimbursed monthly on actual expenses related to the program by the Iowa Department of Public Health. The costs of treatment include both administration support and direct treatment services. The reimbursement payments to each agency were examined for the period of July 2004 through June 2005.

The daily cost of treatment was calculated by dividing the total reimbursed amount for the year examined by the total number of treatment days for all clients served under the Jail Treatment Program in the same time frame. The total program cost for the three agencies was \$785,852.62. Five hundred ninety-five clients from the three counties spent 79,949 days in treatment (based on admission and discharge dates) from July 1, 2004 to June 30, 2005. The average cost of treatment per day was \$9.83.

Diagram 1: Treatment Costs

Program Cost	Number of Treatment Days	Treatment Cost Per Day
\$785,852.62	79,949	\$9.83

Jail Costs:

All clients in the Jail Treatment Program begin treatment in county jail facilities: the average length of stay in jail varies by site. The daily rate of jail incarceration was obtained from officials at each county jail. The rates varied by county: \$85.52; \$65.00; and \$53.00. The 408 clients spent a total of 27,230 days in the in-jail portion of the treatment program. The total cost

for the 27,230 days based on the daily rates provided by each county was \$2,054,342.32. To determine the average cost per day of the in-jail treatment time, this figure was divided by the number of clients (408) yielding an average cost of \$5,035.15 per person per year. The average daily cost was determined by dividing the average cost for one year by the number of days in a year (365). The average cost per day of jail for each of the 408 clients from July 1, 2004 to June 30, 2005 was \$13.79.

Diagram 2: Cost of Incarceration in Jail

Program Cost	Average Cost per Person per Year	Average Daily Cost of Jail
\$2,054,342.32	\$5,035.15	\$13.79

Total Treatment and Jail Costs:

To determine the average cost per day for a client receiving treatment in the in-jail phase of treatment, the average cost per day of treatment was added to the average cost per day of incarceration in jail.

Diagram 3: Cost of Treatment in Jail

Cost Per Day of Treatment	Average Daily Cost of Jail	Average Cost of Treatment During In-Jail Phase of Treatment
\$9.83	\$13.79	\$23.62

Additional time in controlled environments:

Upon jail release, many clients spend additional time in controlled environments. Controlled environments include additional time in: jail; prison; halfway houses; residential correctional facilities; residential treatment facilities; OWI facilities; and shelters. These data were obtained from the following sources: client follow-up interviews (question related to additional time in a controlled environment); The Iowa Department of Corrections client management database (ICON), Iowa Courts On-Line, and the Offender Information link on the Iowa Department of Corrections website.

Approximately 27% of the clients spent an additional 4,636 days in county jails for a total cost of \$321,326.84, based on the average daily rate provided by each county. This additional time in jail was over and above the number of days spent in the in-jail portion of treatment. The average daily cost per client for this additional jail time across all clients was calculated by dividing the total cost by the number of clients (408) by the number of days in a year (365) yielding a rate of \$2.16.

Diagram 4: Cost of Additional Time in Jail

Cost of Additional Time in County Jails	Average Cost per Client for Additional Jail Time	Average Daily Cost of Additional Jail Time
\$321,326.84	\$787.57	\$2.16

Approximately 17% of the clients spent an additional 6,562 days in state prison facilities. Prison costs were obtained from the Iowa Department of Corrections. The cost to house an inmate in Iowa for one year is \$23,367. The daily rate is \$64.02. The total cost for the 6,562 days of prison time was \$420,099.24.

Diagram 5: Cost of Time in Prison

Cost of Additional Prison Time	Number of Days Spent in a State Prison Facility	Cost Per Day of Prison
\$420,099.24	6,562	\$64.02

The average daily rate of \$2.82 for additional prison time across all clients was calculated by dividing the total cost of additional time in prison (\$420,099.24) by the total number of clients (408) and dividing by the number of days in a year (365).

Diagram 6: Average Cost of Additional Time in Prison

Cost of Time in State Prison Facilities	Average Cost per Client for Prison Time	Average Daily Cost of Additional Prison Time
\$420,099.24	\$1,029.66	\$2.82

Approximately 22% of the clients spent an additional 7,963 days in controlled environments including halfway houses, treatment facilities, residential correctional facilities, work release facilities, OWI facilities, and shelters. Clients spent an additional 2,900 days in a variety of different county or state facilities. Each of these types of facilities had varying daily costs, usually well below the daily cost for prison. The figure used to estimate the cost per day for these facilities was the daily rate to house an inmate in prison, \$64.02, very likely an overestimate of the actual cost. Clients spent an additional 5,063 days in treatment facilities, halfway houses and shelters. The average daily cost for treatment was \$9.83. The majority of the other facilities, such as halfway houses and shelters are mostly private not-for-profit organizations that are supported by the community through local donations. For the purpose of the study, an average daily rate of \$10.00 was assigned to these additional controlled environments. The total cost for time spent in additional controlled environments was the sum of the costs in any kind of facility, \$236,288.00, as shown in Diagram 7 on the following page.

Diagram 7: Cost of Controlled Environments

Type of Facility	Assigned Cost	Number of Days	Total Cost
Residential Correctional Facility, State-Run Residential Treatment Facility, Work Release Program, OWI Facility	\$64.02	2,900	\$185,658.00
Halfway Houses, shelters, etc.	\$10.00	5,063	\$50,630.00
TOTAL		7,963	\$236,288.00

To calculate the estimated cost per day of the additional time spent in the various types of controlled environments, the total cost (\$236,288.00) was divided by the number of clients (408) to obtain an average cost of \$579.14 per client per year. The average daily cost of \$1.59 was calculated by dividing \$579.14 by the number of days in a year (365).

Diagram 8: Cost of Time in Additional Controlled Environments

Cost of Time in Additional Controlled Environments	Average Cost per Client per Year for Additional Controlled Environments	Average Daily Cost of Additional Time in Controlled Environments
\$236,288.00	\$579.14	\$1.59

3. Results

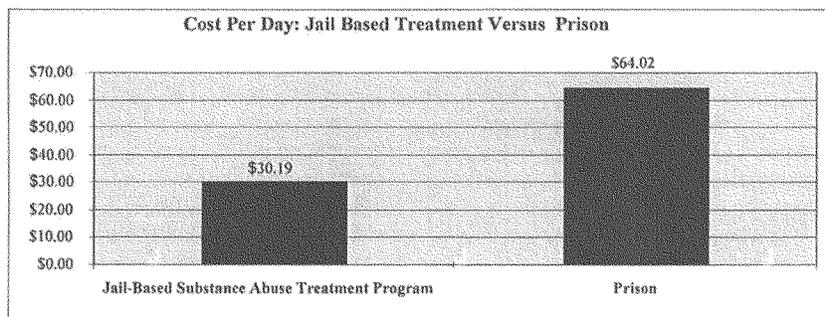
The average daily cost for a client in the Jail-Based Substance Abuse Treatment Program was \$30.19. This was obtained by adding the average daily cost of jail, the cost per day of treatment, and the average cost for time spent in additional controlled environments. Diagram 9 on the following page delineates the average daily costs of the Jail Treatment Program for the annual time period of July 1, 2004 through June 30, 2005.

Diagram 9: Average Daily Cost Per Client in Jail Treatment Program

Type of Service	Average Daily Cost
Jail Time	\$13.79
Treatment	\$9.83
Additional Jail Time	\$2.16
Prison Time	\$2.82
Additional Time in Controlled Environments	\$1.59
Approximate Cost per Day for Client in Jail Treatment Program	\$30.19

The alternate to clients in the program was a prison sentence without treatment services. The daily cost of prison is \$64.02 per client. The average client cost for the jail-based program per year was \$11,019.35 and the annual cost of housing a client in prison was \$23,367. Therefore, there is a cost savings of \$12,347.65 per client per year for involvement in the jail-based treatment program versus a prison sentence.

The average daily cost for a client in the Jail-Based Substance Abuse Treatment Program for the year July 1, 2004 to June 30, 2005 was \$30.19 compared to \$64.02, which is the daily rate for a client incarcerated in a state prison facility. Diagram 10 shows the cost of the Jail Treatment Program compared to the cost to house an inmate in a state prison facility.

Diagram 10. Cost Per Day Comparison

The State of Iowa uses the Substance Abuse Reporting System (SARS) to collect outcome data regarding substance abuse treatment services in the state. Clients in the Jail-Based Substance Abuse Treatment program are tracked for two follow-up SARS interviews that occur

approximately 6 and 12 months after admission. The interviews provide data to determine outcomes related to arrests, employment, and abstinence among other outcomes.

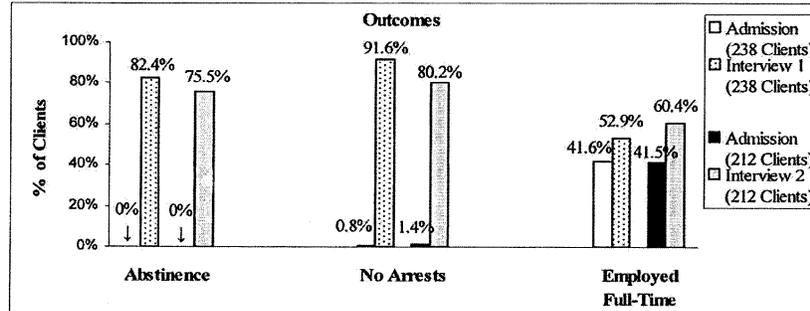
Of the 408 clients admitted from July 1, 2004 through June 30, 2005, 238 clients have completed Interview 1 (6 months after admission) and 212 clients have completed Interview 2 (12 months after admission). Diagram 11 shows client outcomes at admission, Interview 1 and Interview 2 related to abstinence, arrests and employment. Abstinence is defined as a response of "none" when asked to name a primary substance of use, and it refers to abstinence from all substances. The outcome "no arrests" is defined as not having been arrested during the previous six months. Full-time employment is defined as working at least 35 hours per week.

Diagram 11: Client Outcomes from Jail-Based Substance Abuse Treatment Program

	N	Abstained % (N)	No Arrests % (N)	Employed Full-Time % (N)
Admission	408	0.0 (0)	1.0 (4)	35.5 (145)
Interview 1	238	82.4 (196)	91.6 (218)	52.9 (126)
Interview 2	212	75.5 (160)	80.2 (170)	60.4 (128)

Diagram 12 compares the variables between status at admission and status at follow-up on those clients who had a response at *both* admission and follow-up. Client abstinence increased by 82.4 percentage points from admission and maintained a 75.5% rate at the 12 month follow-up. A large percentage of clients were arrest free at Interview 1 lowering somewhat at Interview 2, but remained high at 80.2%. More clients were employed full-time (35 or more hours a week) at the 12 month interview. Clients employed full or part time comprised 74.5% of the interviewed clients 12 months after admission. The majority of the clients interviewed remained abstinent, arrest free and had full-time employment. In contrast, at admission to the program, 100% of the clients reported substance use. Further, all were arrested one or more times or were incarcerated in the 12 months prior to admission into the program.

Diagram 12. Comparison of Admission and Interview Outcome Data



4. Discussion

According to the U.S. Department of Justice, Office of Justice Programs, Bureau of Justice Statistics Bulletin (November 2006, <http://www.ojp.usdoj.gov/bjs/pub/pdf/p05.pdf>), in 2005 the nation's prison population grew 1.9% and Iowa experienced a prison population increase of 2.5%. Iowa was one of the 23 states who reported operating at 100% or more of their highest capacity. Iowa prisons were operating at 21% above capacity at year end 2005, and only 4 states reported a custody population percentage higher than Iowa. When examining the 408 clients participating in the Jail Treatment Program from July 1, 2004 to June 30, 2005, 72.1% of the clients are *not* incarcerated 12 months post-admission. If participation in this program can keep approximately 72% of the clients out of the prison system by offering a substance abuse treatment program which includes education on criminal thinking in an attempt to reduce criminal behavior, the program helps reduce prison population in the State of Iowa.

The Iowa Department of Corrections (DOC) has seen the prison population grow by nearly 400% in the past 10 years to a total exceeding 8,000. At the same time, community correction programs have expanded, much of the increase due to legislative decisions in the early 1990s creating harsher penalties for drug offenses, and longer sentences for a variety of criminal offenders. Eighty to ninety percent of the prison population experience substance abuse disorders and twenty to forty percent have co-occurring disorders. It is widely recognized that individuals with co-occurring mental and addictive disorders are a large and significantly underserved population. Further, the Jail-Based Treatment Program helps alleviate prison management issues such as overpopulation by making more prison beds available for violent, dangerous offenders.

The results of the cost analysis support the potential of the provision of substance abuse treatment to incarcerated individuals to reduce reincarceration and criminal recidivism for drug offenders. Based on the results of this study, the State of Iowa benefits from the investment in jail-based substance abuse treatment programs. The Jail-Based Substance Abuse Treatment Program is less than half of the cost of prison. Had the 408 clients gone to a state prison facility on the day they were admitted to the Jail-Based Substance Abuse Treatment Program and remained in prison through June 30, 2005, the number of incarceration days would have been 76,856. At a cost of \$64.02 per day for prison, the cost to the state would have been \$4,920,321.12, which is 2.1 times higher than the cost for the same individuals to participate in the Jail Treatment Program at \$30.19 per day for a total of \$2,320,282.60.

The benefit of providing this treatment has a value added quality through direct contributions to society as a whole. The majority of the jail based treatment clients tend to maintain abstinence, do not get arrested, and obtain full-time employment. They become contributing members of society, which provides both economical and social benefits. The economy benefits from contributions such as rent/mortgage, purchased goods and services, and revenue from an array of taxes in addition to income. The social benefits involve relationships with family and transition into the community.

When considering the average daily cost of prison (\$64.02), these results suggest that offering treatment services to incarcerated individuals and moving them to continuing care services upon release is a cost effective policy tool.

Statement of Senator Jon Kyl
Senate Finance Committee Hearing
Breaking the Methamphetamine Supply Chain: Meeting Challenges at the Border
September 18, 2007

Thank you, Mr. Chairman.

The destructive influence of methamphetamine throughout the nation has been staggering – an unfortunate fact that holds true in my home state of Arizona. Between 2000 and 2005, methamphetamine-related hospital admissions in Arizona increased by 296 percent, and a 2006 survey estimated that 1.3 percent of 8th, 10th, and 12th graders in Arizona had used methamphetamine in the past month. The prevalent use of methamphetamine is causing a public health crisis in the state and placing an undue burden on law enforcement because of the crime and violence associated with the manufacture and distribution of the drug.

I was pleased to learn in April of the establishment of the Arizona Meth Project, a statewide prevention program based on the Montana Meth Project. I would like to thank Mr. Thomas Siebel, chairman and founder of the Montana Meth Project, for his willingness to testify before this Committee today, and I hope that the Meth Project's efforts in Arizona yield a similar degree of success as they have in combating first-time methamphetamine use in Montana.

Although methamphetamine use in Arizona remains prevalent, statistics suggest that some progress is being made in reducing the domestic production of the drug. For instance, data from the National Clandestine Laboratory Seizure System suggest that, between 2003 and September 2006, methamphetamine laboratory seizures in the Southwest decreased 87 percent, from 1,415 to 173, and it is estimated that only 30 percent of the methamphetamine available in Arizona is actually produced in the state. It seems reasonable that this reduction could, in part, be contributed to passage of the Combat Methamphetamine Epidemic Act of 2005, which was signed into law in March 2006 as part of the Patriot Act reauthorization. The Combat Meth Act limits the sale of medicines containing the most common methamphetamine precursor chemicals, thereby making it more difficult for domestic labs to obtain the necessary elements for methamphetamine production.

The difficulty domestic producers now face in obtaining precursor chemicals is evidenced by Operation Red Dragon, a multi-agency international investigation that targeted a criminal organization operating a website in the United Kingdom. The website, KNO3.com, sold and shipped methamphetamine precursor chemicals worldwide, including to customers in the U.S. With the assistance of the Maricopa County High Intensity Drug Trafficking Area Task Force, the Phoenix Police Department, and the Maricopa County Clandestine Lab Task Force, Operation Red Dragon provided law enforcement agencies throughout the nation with information that led to the arrest of 90 individuals involved in the illegal production of methamphetamine,

and to the dismantling of 122 methamphetamine labs in the United States. The fact that domestic producers had to turn to the Internet suggests that efforts to limit access to methamphetamine precursor chemicals on the federal, state, and local level are working – and Congress must remain vigilant to ensure that domestic producers can not simply turn to easily accessible foreign sources.

While reductions in domestic production are an important first step, methamphetamine remains readily available throughout the country, as domestic reductions have been offset by increased transportation and distribution of methamphetamine produced in Mexico. The smuggling of Mexico-produced methamphetamine poses a significant challenge for law enforcement, particularly in Arizona, which serves as a major distribution hub, staging area, and transshipment point along the Southwest Border. Increased bilateral law enforcement cooperation and the Mexican government's adoption of policies to restrict imports and better regulate the sale of precursor chemicals are promising trends; but, the ease with which Mexican drug trafficking organizations transport methamphetamine, and other drugs, across the border, is just further evidence that Congress must do more to secure the Southern border.

**Bilateral and Multilateral Efforts to Combat the International
Production and Trafficking of Methamphetamine**

**Christy A. McCampbell, Deputy Assistant Secretary
Bureau for International Narcotics and Law Enforcement Affairs
U.S. Department of State
Testimony before the Senate Finance Committee
September 18, 2007**

Chairman Baucus, Senator Grassley, and other distinguished Members, thank you for allowing me this opportunity to provide an update on the Department of State's efforts to combat the international manufacture and trafficking of methamphetamine. On behalf of the Department of State and its Bureau for International Narcotics and Law Enforcement Affairs (INL), I appreciate your continuing concern over the threat posed by this insidious drug and thank you for holding this hearing.

Methamphetamine production, trafficking and abuse continue to be an enormous problem that affects not only this country, but the wider international community as well. The overall market for amphetamine-type stimulants (ATS), including methamphetamine, has witnessed uneven development – stabilizing in some areas while escalating in others. Production remains concentrated in North America and South East Asia, while, according to the UN Office on Drugs and Crime's (UNODC) 2007 World Drug Report, over 104 countries and territories reported seizures of ATS in 2005. The UN also estimates that 15-16 million people consume methamphetamine on a global scale. While methamphetamine abuse in the United States has been trending downwards since the passage of the Combat Methamphetamine Epidemic Act (CMEA), worldwide consumption is growing. This trend is in stark contrast to international consumption rates of organic-based drugs such as cocaine and opiates, which have stabilized. Methamphetamine and similar synthetic drugs offer enormous profit margins, are relatively easy and inexpensive to produce, and can be manufactured virtually anywhere. Combating their spread requires broad, sustained international commitment, and U.S. leadership is essential in this regard.

It is with these facts in mind that the U.S. Department of State is working with other U.S. government agencies, including the Office of National Drug Control Policy (ONDCP) and the Drug Enforcement Administration (DEA), as well as the international community, to tackle this unique challenge to our global drug control policy.

In order to address international methamphetamine production and trafficking, the Department of State continues to play a major role in executing the Administration's Synthetic Drug Control Strategy. We focus on two key areas: (1) securing greater international control and transparency in the production, sale, and transportation of methamphetamine's precursor chemicals and the pharmaceutical preparations containing them; and (2) significantly expanding our support and cooperation with the Government of Mexico on precursor control and other methamphetamine specific initiatives.

International Precursor Chemical Control

Ephedrine and pseudoephedrine are integral chemical components for legitimate pharmaceutical respiratory medicines. These same chemicals are also integral components in the production of one of the most prevalent and abused synthetic drugs – methamphetamine. Our challenge, therefore, is to ensure that legitimate pharmaceutical manufacturers obtain the chemicals they need, while stopping the traffickers from diverting these chemicals into illegitimate international commerce.

The United States is a leader in this international effort, but the diffuse nature of the threat requires international cooperation and commitment if we are to be effective. To increase our impact, the United States works closely with the multilateral institutions that have long underpinned international drug control, principally the United Nations and its affiliated International Narcotics Control Board (INCB). The United States has no stronger ally than the INCB when it comes to rallying international efforts to combat the production and spread of illegal drugs, including methamphetamine. This is a multilateral institution that supports U.S. national objectives in combating synthetic drugs, and we have enjoyed considerable success in recent years in related international arenas.

In March 2006, a U.S. sponsored resolution entitled *Strengthening Systems for Control of Precursor Chemicals Used in the Manufacture of Synthetic Drugs* was adopted by consensus at the 49th UN Commission on Narcotic Drugs (CND).¹ This resolution served to complement the most comprehensive agreement on international chemical control – the 1988 UN Convention against Illicit Traffic in Narcotic Drugs and Psychotropic Substances. It provided a way to institutionalize the process for collecting information on synthetic drug precursor chemicals. Specifically, the resolution requests that countries provide the INCB with annual estimates of their legitimate requirements for methamphetamine precursors pseudoephedrine, ephedrine, and phenyl-2-propanone (P2P); the ecstasy precursor

PMK; and, the pharmaceutical preparations containing these substances. The resolution also requests countries to permit the INCB to share such information with concerned law enforcement and regulatory agencies.

As a result, the INCB reports that over 100 countries and territories are cooperating and providing voluntary reporting on their licit requirements for the aforementioned chemicals. The INCB has published the data collected in its annual report on precursor chemicals and updates the information regularly on its website. The data serves as a baseline for authorities in importing and exporting countries, facilitating quick “reality checks” on the chemicals and the quantities proposed in commercial transactions. Such checks enable authorities to determine whether importation is warranted – or, if no legitimate commercial use is apparent, whether pending shipments require additional law enforcement scrutiny.

The CND resolution also provides enhanced support for the sharing of information within law enforcement channels. Under the banner of the INCB’s Project Prism Task Force, national law enforcement authorities—including those from the United States, namely DEA,—have participated in operational initiatives that have deepened cooperation and capabilities, especially in regions susceptible to chemical diversion. Over the past year, we have seen the Project Prism Task Force increase its effectiveness and the INCB become better able to identify and prevent the diversion of controlled chemicals. Currently, 127 countries have identified points of contact, known as central national authorities, to coordinate activities launched under Project Prism.

To promote the full implementation of the CND resolution and support ongoing INCB activities, including Project Prism, the Department of State contributed \$700,000 in Fiscal Year 2006 funds and an additional \$700,000 in Fiscal Year 2007 funds, which more than doubles the previous contributions made during any prior fiscal year.

Most recently, the Project Prism Task Force undertook a voluntary operation, focusing on the trade of ephedrine, pseudoephedrine, ephedra and pharmaceutical preparations containing those chemicals. The Task Force invited countries in the Americas, Africa, and West Asia to participate in what became known as Operation Crystal Flow. This Operation began in January 2007 and lasted for six months, and it sought to fill intelligence gaps on diversion points for licit shipments of precursor chemicals being diverted to illicit channels. During the Operation, 35 suspicious transactions were identified and investigated. These shipments were either suspended, stopped, released after further verifications,

seized, or referred for further enforcement action. The total quantity stopped, suspended, or seized amounted to more than 53 tons of chemicals.

In addition, using the INCB's online system, Project Prism collects information on pre-export notifications to monitor shipments of the precursor chemicals used to produce methamphetamine and other synthetic drugs. As of July 2007, approximately 8,000 notifications had been sent, allowing countries to verify the legitimacy of these shipments.

We will continue to encourage other countries to actively provide information to the INCB and to support its expanding role. We will also urge the international community to include this subject for discussion in upcoming international fora, including the 51st CND in March 2008 and its subsequent review of progress achieved in combating ATS since the 1998 UN General Assembly Special Session on Drugs (UNGASS). The UNGASS review will be another opportunity to champion international cooperation to prevent the diversion of precursor chemicals. The Department of State, DEA, and ONDCP are working to identify ways to promote the broader exchange of information and expertise pertinent to the control of methamphetamine and other synthetics.

In addition, a major forum to advance methamphetamine controls in this hemisphere is the Inter-American Drug Abuse Control Commission (CICAD), which receives considerable U.S. funding to counter illegal methamphetamine trafficking and abuse. Guided at the policy level by the CICAD Commissioners, the Chemical and Pharmaceutical Unit of CICAD carries out a variety of initiatives in this important field supported by its Experts Groups on Chemicals and Pharmaceuticals, which usually meet once a year.

For instance, a recent initiative by the CICAD Commissioners was their adoption in 2006 of a hemispheric guide entitled *Drugs in Cyberspace: Understanding and Investigating Diversion and Distribution of Controlled Substances via the Internet*. The development of this guide was spearheaded by the United States and an expert group, and CICAD is now conducting training for law enforcement experts to advance their investigative techniques to combat drug trafficking via the internet.

CICAD's expert groups have also written some helpful guides and manuals for use throughout the Hemisphere including, for example, model regulations (with periodic updates) on the control of precursor and essential chemicals, a paper on the elements for a national system to control pharmaceutical products, and two recent documents: *Best Practices Guidelines for Investigation of Pharmaceutical*

Products and Best Practices Guidelines for Investigation of Chemical Substances. Preparation of such guides is the result of CICAD's recognition that controlling methamphetamine and other synthetic drugs is directly tied to successful chemical and pharmaceutical controls. Similarly, especially during the past couple of years, various specialized training courses have been conducted by CICAD to help enhance the implementation of chemical and pharmaceutical controls.

Through this and other means, CICAD works in practical ways to help nations within the Western Hemisphere upgrade their laws and regulations (and their implementation) with respect to precursor chemicals and pharmaceutical products. CICAD's Multilateral Evaluation Mechanism (MEM) enables participating countries to consider the status of drug control in each others' countries. Via this process, countries have shared information on concrete actions tied to combating methamphetamine trafficking and abuse. Virtually every country has made relevant advances since the launch of the MEM some 10 years ago, but progress has been particularly noteworthy in Argentina, The Bahamas, Canada, Ecuador, Grenada, Guatemala, Mexico, Panama, Paraguay and Peru. Advances have included passing or updating legislation or developing and implementing relevant guidelines for institutions and officials charged with the control of chemical and pharmaceutical products.

Cooperation with Mexico

Methamphetamine is a growing challenge for both the United States and Mexico, as the consumption of the drug is increasing in Mexico and cartel-driven violence is harming communities on both sides of our common border. Methamphetamine use has expanded dramatically in border cities primarily because increasing numbers of clandestine laboratories in the area make vast quantities of the drug available for the local market at a relatively low cost. According to local press reports, as many as 80 percent of drug addicts in Tijuana and Mexicali are using methamphetamine. In addition to large, well organized polydrug organizations, thousands of independent methamphetamine producers and traffickers operate throughout Mexico.

Methamphetamine production has steadily migrated into Mexico since the United States and Canada have imposed stricter regulations on precursors and enhanced law enforcement efforts against methamphetamine production. Today, Mexico is the principal foreign supplier of methamphetamine to the United States. Drug trafficking organizations, and independent producers, also control super labs – laboratories producing 10 pounds or more of methamphetamine within a single

production cycle – located primarily in Mexico and California. In addition to smuggling the finished methamphetamine product into the United States, major Mexican criminal organizations control most mid-level and retail methamphetamine distribution in long-established markets, such as the Pacific, Southwest, and West Central regions, and are expanding their distribution into the Great Lakes, Northeast and Southeast regions of the United States.

Mexico is aware of the methamphetamine threat and is making progress in limiting imports of the essential chemicals used to produce methamphetamine. Between 2002 and 2004, Mexico recognized that these imports far exceeded legitimate demand, so the government enacted a series of regulations and policies to restrict imports and better regulate the sale of precursor chemicals. For instance, between 2004 and 2005, the Mexican government banned pseudoephedrine imports of over three tons and restricted the importation of pseudoephedrine to only registered drug manufacturers. In order to further prevent the illegal diversion of these chemicals, Mexico restricted the sale of pills containing pseudoephedrine to only licensed pharmacies, restricted the amount that can be purchased by an individual, and required all imported shipments of pseudoephedrine to be funneled only through four ports and be transported in police-escorted armored vehicles equipped with GPS tracking systems. The Mexican government is also improving commercial tracking systems of precursor chemicals, and is enhancing its ability to detect possible front companies and counter illicit financial transactions related to methamphetamine trafficking. However, the threat of illegal smuggling of precursor chemicals and pharmaceutical preparations from third countries into Mexico will continue to be a challenge.

The State Department's Bureau for International Narcotics and Law Enforcement works closely with the Government of Mexico on a wide range of counter drug, law enforcement, and border security initiatives, and provides assistance and training that specifically targets methamphetamine production and trafficking. Working with the DEA, we assisted in the establishment of Mexican Clandestine Laboratory Response Teams to target organizations involved in the operation of clandestine methamphetamine labs, and have provided four training courses in 2007 to over 250 law enforcement personnel, including one course specifically concerning Clandestine Methamphetamine Labs. To date, the Government of Mexico has trained over 2,100 law enforcement and public safety officers in methamphetamine enforcement techniques.

Furthermore, newly vetted law enforcement personnel trained in methamphetamine investigations have been assigned to five major methamphetamine production

areas in Mexico. We are also supporting the new Federal Police Corps and its Special Investigative Units (SIUs) with specialized equipment, vehicles and computers. The Department is also providing equipment and maintenance support for previously donated CLANLAB vehicles specially designed to take down methamphetamine laboratories, such as safety/toxin suits and emergency chemical trauma kits. So far this year, 16 methamphetamine labs have been seized, including one super lab.

In a clear indication of increased bilateral law enforcement cooperation, U.S. law enforcement officials recently arrested Zhenli Ye Gon, a Chinese-born Mexico City businessman. In March of this year, Mexican officials found and seized more than \$200 million in U.S. currency, as well as various foreign currencies hidden in his mansion in Mexico City. This is the largest single seizure of drug cash in history. Mr. Ye Gon has been indicted in Washington on federal charges of conspiring to manufacture methamphetamine destined for the United States. In addition, Mexican prosecutors have charged Mr. Ye Gon with drug trafficking, money laundering, and weapons possession for his alleged role in illegally importing 19 tons of precursor chemicals and have requested his extradition.

The Department is also focused on providing Non-Intrusive Inspection Equipment (NIIE), state-of-the-art systems that scan cargo containers and passenger luggage, to the Mexican Government to interdict contraband, including precursor chemicals. As part of our overall counternarcotics programs, we also plan to promote education and public awareness concerning the rising threat of methamphetamines in Mexico and the environmental impact of its production.

Along with these methamphetamine-specific initiatives, the Department will continue programs with Mexico that directly confront other drug trafficking, including: targeting international crime along our common border; enhancing Mexican law enforcement's ability to disrupt the international drug trade; and continuing cooperation and coordination between the law enforcement agencies of our two countries.

In addition to our cooperation with Mexico, we continue to work with Canada in countering the threat of methamphetamine production and trafficking. While Canada remains a producer and transit country for precursor chemicals and over-the-counter pharmaceuticals used to produce synthetic drugs, the Government of Canada has made a serious effort to curb the diversion of precursor chemicals that are required for methamphetamine production to feed domestic and U.S. illegal markets, and has worked productively with the United States in joint law

enforcement operations that disrupted drug and currency smuggling operations along both sides of the border. There is some evidence that Canada's production of methamphetamine is increasing – a situation which will require careful monitoring on both sides of the border. However, we will continue to work closely with our Canadian partners to identify and dismantle methamphetamine laboratories, and to prevent further illicit diversion of precursor chemicals.

East and South East Asia

While most of the Department of State's efforts to curb methamphetamine production, trafficking, and abuse concentrate on international precursor chemical control and cooperation with Mexico, we also have smaller programs in Asia, where methamphetamine production and consumption remains a significant problem. Methamphetamine is by far the most commonly abused drug in Thailand. Japan has an estimated 600,000 addicts and between one and three million "casual" users nationwide. UNODC's 2007 World Drug Report calls Japan "the most lucrative methamphetamine market in East and South East Asia." And in the Philippines, statistics from rehabilitation centers show that 84 percent of patients list methamphetamine as their drug of choice. Burmese groups produce hundreds of millions of methamphetamine pills which flood into Thailand and turn up across South East Asia. Recently, a large methamphetamine lab was discovered and successfully destroyed in Cambodia. The ease with which methamphetamine can be produced, and the relatively cheap street price that enables traffickers to sell it for large profits, makes the drug very attractive to Asian organized crime and its abuse is growing in many Asian countries including China and India. In China, which already has a substantial abuser population in its cities, methamphetamine in the powder and pill form is increasingly being replaced by the crystal form of the drug, known as "ice."

While the United States is not the destination market for most of these narcotics, it could be someday. Also, this Asian consumption can lead to severe social disruptions with geopolitical consequences affecting the United States, and provide illegal revenue streams that could potentially be exploited by international terrorists or regional insurgencies. To help stem production, trafficking, and abuse in East and South East Asia, the Department of State has supported bilateral and multilateral efforts. We have provided funding to the ASEAN and China Cooperative Operations in Response to Dangerous Drugs (ACCORD) program to combat drug production, trafficking, and abuse, with a particular focus on ATS, as well as to UNODC's project to promote regional cooperation for precursor chemical control. In FY 2007, the Department also provided a contribution

through UNODC to assist with the clean-up efforts of the aforementioned methamphetamine lab in Cambodia.

Our efforts have helped local enforcement officials to improve their investigative skills and encouraged cooperation across borders, a prerequisite for success in controlling this intrinsically international business. We have also provided funding in association with Joint Interagency Task Force-West (JIATF-West) programs to Indonesia and the Philippines for DEA law enforcement training, including: basic drug investigations, chemical control, and clandestine laboratory identification training. Finally, the Department of State has provided support for demand reduction and treatment programs in Laos, Thailand, Vietnam, Cambodia, and elsewhere in Southeast Asia. These relatively low-cost programs help to encourage international cooperation with these countries while pursuing our common anti-drug and broader geopolitical objectives with the countries of the region. In addition, they also undercut illegal drug producers that could eventually turn their sights on U.S. markets.

Implementing the International Provisions of the Combat Methamphetamine Epidemic Act

I would like to turn now to an area where Congress has taken the lead in rallying additional attention to this scourge, namely the Combat Methamphetamine Epidemic Act (CMEA). In addition to its domestic impact, the CMEA has been an effective tool for focusing international attention to the methamphetamine problem and galvanizing international efforts to fight it. The Department of State's Bureau for International Narcotics and Law Enforcement Affairs has taken steps to implement the international provisions of the CMEA, completing the first reporting and certification cycle. In accordance with the CMEA, on March 1, 2007, our annual International Narcotics Control Strategy Report (INCSR) included a new section reporting on the top five exporters of methamphetamine's precursor chemicals, as well as the top five importers of these chemicals.

For the first CMEA certification, we relied heavily on import and export data found in a widely used trade data bank to make the Certification determination. For next year's report, we intend to use the newly available INCB data to refine our report. The INCB data on legitimate domestic requirements will help us to focus on countries which import more than their reported licit domestic requirements, as provided to the INCB. The largest exporters will continue to be identified by the most recent trade data, as reported by the trade data base.

In addition, we are complying with the CMEA by continuing our bilateral partnership with Mexico and will be reporting on our cooperation on chemical control and law enforcement activities with its government. The Department will continue to work with experts from ONDCP, DEA, the Department of Justice, the intelligence community and other relevant partners to refine its methodology for evaluating countries in accordance with the CMEA.

Conclusion

I would like to close by thanking Congress for its leadership on this important issue. The CMEA has provided the Administration with new tools to combat the threat of methamphetamine and effectively raised the urgency both domestically and internationally. I look forward to continued collaboration with Congress, the U.S. Government interagency community and our international partners. Thank you for the opportunity to testify today. I welcome your questions.

¹ The UN Commission on Narcotic Drugs is the central policy-making body within the United Nations system dealing with drug-related matters.

**Questions for the Record Submitted to
Deputy Assistant Secretary Christy A. McCampbell
Senate Committee on Finance
September 18, 2007**

Questions From Senator Baucus

Question:

At the hearing, you spoke about Mexico's plan to announce that as of January 1, 2008, its quota for imports of pseudoephedrine will be set at zero. As of January 1, 2009, sales of pseudoephedrine products in Mexico would be banned. Please discuss the impact these developments will have on domestic and international meth law enforcement operations.

Answer:

We believe this is a significant development that will severely limit the licit importation of precursor chemicals into Mexico, criminalizing its trade and facilitating the involvement of Mexican police in its investigation. Since the great bulk of the methamphetamine consumed in the United States is produced in superlabs in Mexico and California run by Mexican drug cartels, the planned ban should also disrupt the flow of methamphetamine into the U.S. The measure builds on other accomplishments by the Government of Mexico in countering the production of methamphetamine, such as taking down clandestine labs (CLANLABs) and the seizure of cash assets from suspected traffickers.

The Department of State and the Drug Enforcement Agency (DEA) will continue to work closely with the Calderon Administration to arrest and prosecute those who produce methamphetamine and divert precursor chemicals to illicit uses. Based on preliminary data, these efforts have resulted in the reduced availability of methamphetamine in several major U.S. cities.

Question:

In your testimony, you discuss the March 2006 United Nations resolution, which requests that countries provide voluntary annual estimates of legitimate requirements for meth precursors. Over 100 countries are cooperating and providing data online. Which countries are not complying with the resolution? What is the State Department doing to encourage compliance?

Answer:

In 2006, the 49th UN Commission on Narcotic Drugs (CND) unanimously adopted the U.S.-sponsored CND resolution entitled "Strengthening Systems for Control of Precursor Chemicals Used in the Manufacture of Synthetic Drugs." This important

resolution requested UN Member States to provide to the International Narcotics Control Board (INCB) estimates of their legitimate requirements for certain key chemicals used in the manufacture of synthetic drugs and, to the extent possible, preparations containing them. The chart accompanying this response provides a list of the approximately 100 countries and territories that are providing the information pursuant to this request.

The resolution passed at the CND is voluntary in nature; therefore, no legal requirement exists for countries to comply with the resolution. However, the Department of State is utilizing diplomatic opportunities to urge countries to provide the requested information to the INCB. In 2006, for example, the Department instructed U.S. Embassies in priority countries, including Canada, China, India, Mexico, Netherlands and Switzerland, to raise U.S. concerns about methamphetamine production with their host governments and in this regard ask that they provide the INCB with the information requested in the resolution. In March 2007, the Department's Bureau for International Narcotics and Law Enforcement Affairs (INL) used the occasion of the 50th CND to reinforce the need to enhance international cooperation to combat methamphetamine and other synthetic drugs, and raised the significance of the 2006 resolution. The June 2007 US-EU Drugs Troika meeting in Brussels served as another opportunity to emphasize continued cooperation to combat methamphetamine precursors with our European partners, especially with regard to working in tandem with the major chemical producing nations.

The Department of State will continue to use international fora to elevate the importance of precursor chemical control and meeting the voluntary reporting requirements of the 2006 CND resolution. Precursor chemical control will be included on the agenda of the November 2007 meeting of the US-EU Drugs Troika, as well as that of the March 2008 CND, which will also include a review of the progress achieved in combating amphetamine-type stimulants since the 1998 UN General Assembly Session on Drugs. Precursor chemical control will be one major focus of this discussion.

It should be noted that determining the legitimate requirements of the listed chemicals is complicated and complex. The Drug Enforcement Administration (DEA) spent several months working with a private independent contractor to develop a methodology and gathering the data to develop the initial estimate of the medical needs of the United States of ephedrine and pseudoephedrine. The estimates of medical needs were derived from data the contractor routinely collects and offers to customers to understand the pharmaceutical market. For this analysis, the contractor utilized the following types of data: (1) sales to retail establishments (including pharmaceuticals), (2) sales by retail establishments to patients, and (3) medical insurance claims. It is therefore not surprising that many other governments—with fewer resources to devote to research and tracking and with less complete records—find this task daunting. Given the inherent difficulty of producing these estimates, the US has been greatly encouraged by the positive efforts and responses thus far by other governments.

Question:

Native Americans and Native Hawaiians have the highest meth use rates of any ethnicity in the United States. This trend has been compounded by the fact that the Mexican meth cartels have been specifically targeting Native American reservations for

meth distribution. What has the Department of State been doing to work with and to empower Tribal governments, particularly those on the border, to help them deal with the increased meth trafficking and use in their communities? What more can be done to involve the Tribes?

Answer:

As the State Department's counter-methamphetamine activities are limited to international diplomatic engagement and foreign assistance, I would respectfully defer to the Office of National Drug Control Policy and the Drug Enforcement Administration on this question.

Questions From Senator Grassley

Question:

We know that the meth epidemic started on the West Coast in Washington, California and Oregon and has spread east. Has it now hit the East Coast and where do you see some of the hardest hit states?

Answer:

As the State Department's counter-methamphetamine activities are limited to international diplomatic engagement and foreign assistance, I would respectfully defer to the Office of National Drug Control Policy and the Drug Enforcement Administration on this question.

Question:

The Combat Meth Act has been in effect for a year and the effect on homegrown labs has been remarkable but we all know we still have a significant meth problem, with much of drug being trafficked from Mexico. What additional legislation would you recommend to close any loopholes to Combat Meth Act and other meth laws in order to reduce the amount of meth on our streets?

Answer:

In addition to the positive impact the Combat Methamphetamine Epidemic Act (CMEA) has had on domestic small toxic labs, the CMEA's international provisions have proved to be useful in focusing international attention on the trade in methamphetamine precursor chemicals. As the first certification under the CMEA was only made in March 2007, we would welcome the opportunity to discuss this matter further once we have had time to fully evaluate the new law's implementation.

While Mexico continues to be the primary source of the methamphetamine consumed in the United States, we are unaware of any gaps in existing U.S. law that traffickers are exploiting to smuggle methamphetamine into the U.S. Mexican law contains stringent controls on the importation, transportation, and retail sale of methamphetamine precursor chemicals, and Mexico has recently announced that it will ban all imports of precursor chemicals beginning in 2008. Nevertheless, smuggling of methamphetamine and its precursors will continue to be a challenge, and we will continue to need Congress's support for foreign assistance to assist Mexico in its fight against these drug trafficking networks.

Question:

The United States has provided significant funding and assets to the Government of Mexico for counter-narcotics and judicial training but drug trafficking organizations continue to exercise significant control and illegal narcotics continue to pour over the Southwest Border. Without getting into the possible future aid package currently being discussed, what additional assistance is being provided to the Mexican government to help them combat meth production and trafficking?

Answer:

Approximately one quarter of INL's recent budgets for its Mexico program has been dedicated to Border and Port Security. Much of this has been dedicated to procuring non-intrusive inspection equipment, such as the Vehicle and Cargo Inspection System equipment (VACIS), which are deployed along the US/Mexico border and throughout Mexico. This equipment can be used to interdict contraband, including precursor chemicals used in methamphetamine production.

DEA and the Narcotics Affairs Section (NAS) are beginning the implementation of a Methamphetamine Signature Program (MPP) in coordination with the Mexican government, which will allow for the exchange of intelligence data and chemical information profiles from seized methamphetamine, allowing the law enforcement agencies to track manufacturing trends and precursor usage. In addition, DEA and NAS have provided and will continue to provide related training courses to Mexican law enforcement personnel, including a course aimed at helping first responders react to the discovery of clandestine methamphetamine labs, which includes a significant portion of information related to handling hazardous materials. There are 110 vetted Mexican law enforcement personnel assigned to serve in five major methamphetamine-producing areas in Mexico, supported through DEA's Special Investigative Unit (SIU) structure. Finally, NAS provided the GOM with a new CLANLAB truck and has funded the provision of specialized equipment for eight clandestine lab trucks previously donated by DEA, such as safety/toxin suits, trailers, and emergency chemical trauma kits.

Question:

The International Narcotics Control Board (INCB) assembles an annual list of country licit requirements for meth precursor chemicals which is then used to compare against company records to show possible diversion points. This year 80 countries are participating in the list but there are some very noticeable gaps that are ripe for diversion.

- (a) What, if anything, is the State Department doing to urge nonparticipating countries to participate in this process?
- (b) Corrupt government and company authorities are often contributing factors in the continuation of illicit shipments. What steps are being taken to address these contributing factors?
- (c) Currently, the INCB is urging its member states to provide this information but there is no mandatory requirement for participation.
Are stronger efforts being pursued to hold rogue nations and rogue companies accountable for illegal diversions of precursor chemicals?

Answer:

(a) In 2006, the 49th UN Commission on Narcotic Drugs (CND) unanimously adopted the U.S.-sponsored CND resolution entitled "Strengthening Systems for Control of Precursor Chemicals Used in the Manufacture of Synthetic Drugs." This important resolution requested UN Member States to provide to the International Narcotics Control Board (INCB) estimates of their legitimate requirements for certain key chemicals used in the manufacture of synthetic drugs and, to the extent possible, preparations containing them. The chart accompanying this response provides a list of the approximately 100 countries and territories that are providing the information pursuant to this request.

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The Department of State will continue to use international fora to elevate the importance of precursor chemical control and meeting the voluntary reporting requirements of the 2006 CND resolution. Precursor chemical control will be included on the agenda of the November 2007 meeting of the US-EU Drugs Troika, as well as that of

the March 2008 CND, which will also include a review of the progress achieved in combating amphetamine-type stimulants since the 1998 UN General Assembly Session on Drugs. Precursor chemical control will be one major focus of this discussion.

It should be noted that determining the legitimate requirements of the listed chemicals is complicated and complex. The Drug Enforcement Administration (DEA) spent several months working with a private independent contractor to develop a methodology and gathering the data to develop the initial estimate of the medical needs of the United States of ephedrine and pseudoephedrine. The estimates of medical needs were derived from data the contractor routinely collects and offers to customers to understand the pharmaceutical market. For this analysis, the contractor utilized the following types of data: (1) sales to retail establishments (including pharmaceuticals), (2) sales by retail establishments to patients, and (3) medical insurance claims. It is therefore not surprising that many other governments—with fewer resources to devote to research and tracking and with less complete records—find this task daunting. Given the inherent difficulty of producing these estimates, the US has been greatly encouraged by the positive efforts and responses thus far by other governments.

(b) The Department of State provides funding for anticorruption assistance and training to numerous countries throughout the globe, and also supports multilateral diplomatic efforts against high level corruption (kleptocracy) and prosecuting transnational bribery, tracing stolen assets, strengthening integrity in government institutions, as well as promoting the UN Convention against Corruption as the global standard for anti-corruption action. The State Department's Bureau for International Narcotics and Law Enforcement Affairs anti-corruption programs received \$4.5 million in FY 2007 funding.

In addition, the Department continues to work with committed partners in the G8, Organization of American States (OAS), APEC, United Nations, the World Bank, and other fora to advance a robust international agenda to diminish the impact of corruption to U.S. national interest.

These activities are not specific to private sector industries such as the chemical industry, but the application of this training and assistance is broad enough to make a positive impact in the oversight and integrity of these sectors. By enhancing the capacities of local and national regulatory and law enforcement authorities, we enable international partners to gain more effective control over their legitimate commerce.

Because corruption is an endemic problem in many countries, and will require a long-term effort to overcome it, the State Department also supports "culture of lawfulness" programs that seek to change public attitudes towards bribery and other corrupt practices and promote respect for the rule of law. In Mexico, for instance, "culture of lawfulness" materials are provided to police and school-aged children and are also distributed through the mass media and non-governmental organizations.

(c) While the 2006 UN Commission on Narcotic Drugs (CND) resolution seeks voluntary cooperation in providing information to the International Narcotics Control Board (INCB), we have been pleased thus far with the level of participation and feel that a voluntary reporting system is in fact the best way to achieve greater cooperation on this issue.

By participating in international cooperation mechanisms, such as the CND and the INCB's Project Prism, countries are subject to pressure from their peers and from the

INCB to cooperate to the fullest extent possible in pursuing chemical precursor control efforts. This operational cooperation at the peer-to-peer level reinforces the expectations set out in the CND resolution entitled “Strengthening Systems for Control of Precursor Chemicals Used in the Manufacture of Synthetic Drugs.”

On a larger scale, the INCB produces an annual report that provides in-depth analysis of country compliance with the international drug control regime. This report provides recommendations for remedial measures to bring countries in line with the treaty provisions, and the INCB maintains an ongoing dialogue with governments to help ensure treaty compliance, recommending technical assistance or other such measures, when appropriate. The INCB report is widely respected by the international community as providing the world’s most transparent scorecard on how governments are doing collectively, as well as individually, in meeting the obligations assumed under the international drug control conventions. The INCB report is one way to motivate countries to comply with their drug-control obligations that are inscribed into international law.

Specific to the chemical industry, the INCB and the UN Office on Drugs and Crime (UNODC) plan to showcase cooperative efforts with chemical companies. For example, cooperation between the German government and its chemical industry has led to increased surveillance efforts and augmented law enforcement community efforts to track and intercept illicit chemical shipments. It is this type of cooperative relationship that is being fostered in order to make the chemical industry aware of and sensitive to the risk of chemical diversion.

The U.S. Department of State will continue to urge our international partners on both a bilateral basis and in multilateral settings to take effective action in enforcing their laws to prevent the diversion of precursor chemicals from legitimate trade.

Question:

Senator Feinstein and I introduced legislation that would double and in some cases triple the penalty for those who market drugs to children. Is there any thing else the federal government can do to help prevent candy flavored meth from infiltrating and growing in other states?

Answer:

While we recognize that this is a disturbing development, our NAS office is not aware of the production of candy-flavored methamphetamine products in Mexico. Coloring and the addition of flavors is usually done later in the production/distribution process. We defer to our DEA colleagues for more detailed information about this marketing trend.

**Written Statement of
Joseph T. Rannazzisi
Deputy Assistant Administrator
Office of Diversion Control
Drug Enforcement Administration
United States Department of Justice**

Before the

Senate Committee on Finance

“Breaking the Methamphetamine Supply Chain: Meeting Challenges at the Border”

September 18, 2007

Introduction

Chairman Baucus, Ranking Member Grassley, and distinguished members of the Senate Committee on Finance, thank you for the opportunity to appear today regarding the challenges that the Drug Enforcement Administration (DEA) and our law enforcement partners face in breaking the methamphetamine supply chain. Today, I would like to discuss the methamphetamine situation, both domestically and internationally, and the role that DEA plays in enforcing the Combat Methamphetamine Epidemic Act. Over the past year much has been done to address the illicit production and distribution of methamphetamine and the flow of chemicals used to manufacture this insidious drug. The DEA continues to work through our law enforcement partnerships across the country and around the world to aggressively identify, dismantle, and prosecute drug organizations responsible for trafficking in methamphetamine, its precursor chemicals, and their illicit proceeds.

Situational Overview

Since passage of various state legislative measures and the Combat Methamphetamine Epidemic Act (CMEA) (Title VII of the USA PATRIOT Improvement and Reauthorization Act of 2005, P.L. 109-177), DEA has seen a significant decline in the number of clandestine methamphetamine laboratories across the United States. The Administration's *2006 Synthetic Drug Control Strategy – A Focus on Methamphetamine and Prescription Drug Abuse* set forth several goals for the reduction of synthetic drug use. One of the specific goals was to reduce the number of domestic methamphetamine labs by 25 percent over the next three years, with 2005 as the base year. We have already met and exceeded this goal. In 2006, there was a reduction of 41% percent over the previous year. Barring some unforeseen change, we expect to see a continued reduction through 2007. More importantly, the reduction in the number of toxic labs has resulted in fewer children being exposed to the hazards posed by these

labs, reduced the number of toxic waste sites caused by these labs, and allowed law enforcement in most areas of the country to devote precious resources elsewhere.

DEA continues to work with its international partners and the International Narcotics Control Board (INCB) to identify, trace, and share information regarding suspect shipments of precursor chemicals used in the illicit manufacture of methamphetamine. Encouraging countries to share information relative to international licit chemical shipments has been both challenging and rewarding. DEA has been working shoulder-to-shoulder with the Government of Mexico to address the illicit manufacture of methamphetamine and trafficking of methamphetamine into the United States. DEA has also been providing extensive training to Mexican law enforcement and regulatory personnel, as well as personnel from several other countries.

Despite these successes, we must remain focused on our efforts and not let up. Although recent QWEST data suggests a downward trend in methamphetamine use and the prevalence of annual methamphetamine use among 8th, 10th, and 12th graders (according to the Monitoring the Future annual survey) indicates a decline since 2002, the National Drug Intelligence Center's National Drug Threat Survey for 2007 shows that 35.0 percent of state and local law enforcement agencies in the United States report that methamphetamine is the greatest drug threat in their area. This is second only to cocaine at 40.1 percent. Methamphetamine availability, as well as demand for treatment, continues to be a concern. We will continue to work on all fronts to counter this threat and strive to keep methamphetamine abuse on a downward trend.

Over the past year, DEA has been actively engaged in implementing all of the provisions of the CMEA. In that effort, DEA and our state and local counterparts have discovered areas of the Act that could be improved to assist in identifying the diversion of chemicals from retail outlets. Specifically, there is a lack of connectivity, both intra-state, as well as inter-state, with the logbooks that retail outlets are required to maintain in accordance with the Act. It has also been difficult to identify and ensure that the sellers of pseudoephedrine and ephedrine products have self-certified with the DEA as required under the Act. Despite an extensive public awareness campaign, DEA believes that there are still a significant number of sellers of these products who have not self-certified and there is no mechanism to identify those that are not self-certified.

Controlling the Distribution of Precursor Chemicals

Methamphetamine is different from other illicit drugs of abuse because production of the drug requires almost no specialized skill or training and its recipes are readily available on the Internet. The precursor chemicals associated with this drug have also been historically relatively easy to obtain and inexpensive to purchase. These factors have contributed to methamphetamine's rapid sweep across our nation. In March 2006, reacting to the devastating impact that the illicit manufacture of methamphetamine was having on our nation, Congress enacted the CMEA. Among other things, the Act established a system to monitor and regulate the importation, production, and retail sales of non-prescription ephedrine, pseudoephedrine, and phenylpropanolamine products-

common ingredients found in over-the-counter cough, cold, and allergy products. These chemicals and drugs were included in the CMEA because they are key precursors used in the illicit manufacture of methamphetamine or amphetamine. This legislation provided law enforcement and regulators with invaluable tools used to contain the production of methamphetamine.

As a result of the CMEA, the ability of pseudoephedrine to be sold on the spot market was effectively taken away. These transactions, which were not regulated under prior law, are now treated as new imports or exports and, therefore, subject to 15-day advance notification during which the DEA verifies the legitimacy of each transaction. In addition, the Department of Justice now 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 and help prevent their diversion into the illicit market.

Retail provisions of the CMEA became effective in September 2006 and include self-certification, employee training, product packaging and placement requirements, sales logbooks, and daily and 30-day sales/purchase limits. In order to purchase products containing ephedrine, pseudoephedrine, and phenylpropanolamine, an individual must now show identification and sign a logbook at sales locations. Law enforcement is able to monitor these logbooks in order to identify any person purchasing more than 9 grams within a 30-day period. The CMEA also created a national database of self-certification records available to state and local law enforcement agencies to document those retail sales locations that have complied with the requirements of this law. As a result of the implementation of the CMEA (and similar predecessor laws passed by the states), there has been a 41%-percent decrease in the number of methamphetamine laboratories in 2006 from the previous year.

Additional CMEA provisions include: requiring DEA to conduct an assessment of the annual need of ephedrine, pseudoephedrine, and phenylpropanolamine; establishing production and import limits; requiring DEA be notified of transfers following importation or exportation of methamphetamine precursor chemicals; and removing previously established sales thresholds, among others.

CMEA Implementation

Upon passage of the CMEA in March of 2006, DEA initiated the process of drafting regulations to implement the provisions of the Act. On September 26, 2006, an Interim Final Rule was published in the Federal Register to incorporate the statutory retail sales provisions of CMEA into implementing regulations of the Controlled Substances Act.

All retail sellers of regulated ephedrine, pseudoephedrine, and phenylpropanolamine products were required to "self-certify" with DEA by September 30, 2006. As of August 28, 2007, there are more than 76,000 self-certified sellers of non-

prescription ephedrine, pseudoephedrine, and phenylpropanolamine products nationwide. A break-down by business activity is listed below:

Business Type	Number
All Other General Merchandise Store	755
Convenience Store	7,294
Discount Department Store	2,922
Gas Station with Convenience Store	10,090
Grocery Store	6,657
Mobile Vendor	1
Other Health and Personal Care Store	297
Pharmacy and Drug Store	44,993
Specialty Food Store	26
Warehouse Clubs and Superstores	3,005
TOTAL	76,040

Prior to the passage of the CMEA there was no known listing of all businesses selling pseudoephedrine, ephedrine, and phenylpropanolamine products, although the Consumer Healthcare Products Association (CHPA) has estimated that there are approximately 750,000 retail establishments nationwide that sell over-the-counter medicines. To ensure that businesses were in compliance with the provisions of the CMEA, DEA has taken several steps to inform the regulated industry of the retail requirements under CMEA:

- In mid-August 2006, DEA posted on its website www.deadiversion.usdoj.gov the required CMEA training materials, and a question and answer guidance section.
- An online process to self-certify regulated sellers was initiated on September 20, 2006.
- On September 29, 2006, DEA published a two-thirds page advertisement in the *USA Today* newspaper notifying affected industry of the new requirements under CMEA.
- Between October 4-25, 2006, the Department of Justice and DEA participated in weekly conference calls with five industry associations regarding CMEA issues. The industry associations included:
 - American Council on Regulatory Compliance (ACRC)
 - Food Marketing Institute (FMI)
 - National Association of Chain Drug Stores (NACDS)
 - National Association of Convenience Stores (NACS)
 - National Grocers Association (NGA)

- A DEA Chemical Industry Conference was held October 31, 2006 - November 1, 2006 to provide information to the affected industry regarding the requirements of CMEA, among other matters.
- In February 2007, DEA mailed 26,000 letters to pharmacies that had not self-certified. These pharmacies were identified through a comparison of the CSA registrant database with the CMEA self-certification database. An additional 16,000 pharmacies were self-certified as a result of this effort.
- On May 16, 2007, DEA mailed letters to 1,600 DEA-registered chemical distributors requesting non-pharmacy customer information to identify and notify locations that had not yet self-certified. DEA only received responses from approximately 400 (25%) of the distributors. Many of these distributors indicated that they no longer sold pseudoephedrine or ephedrine products. The list of businesses purchasing methamphetamine precursor chemicals that was provided by the remaining distributors was compared with the self-certification database. DEA was able to determine that approximately 8,300 of the possible 12,375 customers of these distributors who were receiving products containing these chemicals were not self-certified as required under CMEA. DEA is planning another mass-mailing for September 2007 to those companies identified as not being self-certified through this project. (DEA has concluded, from this exercise, that there could be as many as 30,000 additional sellers of pseudoephedrine and ephedrine products yet to self-certify as required under CMEA.

In addition to these efforts to educate industry, Diversion personnel assigned to all DEA divisions were trained regarding the retail provisions of the CMEA during the week of October 2, 2006.

CMEA also requires DEA to establish national, annual licit import quotas for pseudoephedrine, ephedrine, and phenylpropanolamine. In April 2006, DEA began the process of determining what this quota should be by commissioning IMS Health to conduct an independent assessment of legitimate annual need for pseudoephedrine and ephedrine products in the United States. On July 10, 2007, DEA used the results of this assessment to publish (in the Federal Register) an Interim Final Rule with Request for Comment. This Interim Final Rule, when finalized, will implement the quota provisions envisioned by Congress when it passed CMEA. In order to be sure DEA is prepared to implement this Final Rule, DEA has been obtaining 2008 import applications which will be adjudicated after DEA publishes a final rule in the Federal Register that will establish the 2008 assessment of Annual Needs for each of the List I chemicals.

In addition to the rulemakings noted above, DEA has also finalized or is in the process of finalizing the following CMEA-related rulemakings:

- Notice of Transfers following Importation or Exportation
- Import and Production Quotas for Certain List I Chemicals

- Fee for Self-Certification for Regulated Sellers of Scheduled Listed Chemical Products
- Record Requirements for Chemical Distributors
- Elimination of Exemption for Chemical Mixtures containing the List I Chemicals Ephedrine and/or Pseudoephedrine
- Registration Requirements for List I Chemicals
- Information on Foreign chain of Distribution for Certain List I Chemicals
- Removal of Thresholds for the List I Chemicals Ephedrine, Pseudoephedrine, and Phenylpropanolamine

Current Issues with CMEA

Despite successes resulting from the passage of the CMEA and related state-level legislation, some issues have arisen as a result of CMEA requirements. Though law enforcement can view the required logbooks, paper logbooks are difficult to effectively review and analyze. Electronic logbooks, though not required under CMEA, are easier to review but generally there is no connectivity between them within any given state, and certainly not on an inter-state basis. Due to this lack of connectivity, law enforcement has reported several cases of “smurfing.” (“Smurfing” is defined as an individual or group of individuals traveling to multiple stores and purchasing quantities of pseudoephedrine or ephedrine products at or under the legal limit per store.) Since there is no requirement for retail sellers of these products to have interconnectivity with their logbooks, individuals can circumvent the maximum sales limits under CMEA. Some states are attempting to establish connectivity between stores; however, these efforts are generally limited to only intra-state connectivity. Furthermore, even though there are several trial logbook interconnectivity programs being tested by different store chains, there is currently a lack of compatibility among these systems. Any future expansion of such monitoring programs will require an established standard format or program in order to effectively monitor the data on an intra or even inter-state basis.

Identifying existing businesses and future businesses that do not self-certify has and will continue to be a challenge for the DEA. Through its efforts, as identified above, DEA has made a concerted effort to inform the appropriate businesses of their responsibility to self-certify if they intend to sell products containing pseudoephedrine, ephedrine, or phenylpropanolamine. Unfortunately, DEA believes that there are still numerous businesses that are currently selling products that contain these chemicals and are not self-certified. The CMEA does not prohibit a DEA-registered distributor from selling these types of products to retail outlets that have not self-certified, and because the retail outlets do not have to be DEA registrants, DEA has no mechanism to identify the universe of retail outlets who have not self-certified and yet continue to sell these products.

Domestic Methamphetamine Situation

While both state and federal legislation have made a significant impact in reducing the number of clandestine laboratories in the United States, the abuse of the drug continues. Recently, the National Association of Counties released a survey on methamphetamine abuse. Their survey found that more teens, women, and minorities are abusing the drug. The findings of the survey also reflected a growing concern among law enforcement officials about meth abuse spreading to a wider range of people. Methamphetamine distribution and consumption continues to pose a serious challenge.

To address this challenge, DEA continues to regularly host meetings of the Methamphetamine Task Force as established by the 2006 Department of Justice Appropriations Act. The Task Force meets to review the federal government's policies with respect to the production and trafficking of methamphetamine and its precursor chemical initiatives, and to make recommendations on how best to address these issues.

In addition, DEA is in the process of constructing a state-of-the-art clandestine laboratory training facility in Quantico, Virginia. Construction for this facility began in August 2007 and is anticipated to be completed during the summer of 2008. Once completed, DEA will be able to enhance the training of state and local officers and foreign law enforcement officials on the latest safety techniques and methods in detecting and investigating clandestine methamphetamine labs.

Also, beginning in November 2006, DEA published a national listing of addresses in which methamphetamine labs or chemical dumpsites had been found. This listing is located on DEA's website www.dea.gov. The registry has provided owners and 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. As of August 2007, there were 11,200 listings with more than 250,000 hits on this website from individuals interested in the information provided by this registry.

While we still face these challenges, we have made some important progress. The significant reduction in domestic clandestine lab seizures has resulted in several other positive side effects. First and foremost, the decrease in the number of lab incidents has resulted in a significant decrease in the number of children exposed to the hazards posed by clandestine methamphetamine labs [3,663 incidents in 2003 compared to 319 in 2007 (as of August 28, 2007)]. Due to the reduction in the number of clandestine lab incidents federal, state and local agencies have been able to redirect their law enforcement efforts towards other important matters rather than overseeing the lengthy process of removing the gross contaminants found at lab sites.

DEA continues to work with its state and local counterparts to identify, investigate, and dismantle organizations involved in the manufacture and distribution of methamphetamine. DEA's longstanding relationships with its counterparts bring together the expertise of individual investigators and agencies that serves as a force multiplier. Specifically, DEA is using the lab expertise of its Clandestine Laboratory Enforcement

Teams to identify and target Mexican methamphetamine trafficking organizations. The teams trace precursor chemicals and seize finished methamphetamine from these organizations, both in the United States and Mexico.

In addition, DEA, in concert with Internal Revenue Service-Criminal Investigation, the Department of Homeland Security Immigration and Customs Enforcement (ICE), continue to attack the financial infrastructure of drug trafficking organizations. Drug money is the driving force behind all illicit drug operations. DEA's financial enforcement program encourages ICE participation to accomplish our mission. Denying these organizations the very money they seek will help prevent the next cycle of illicit drugs from targeting our consumer market.

International Methamphetamine Situation

As DEA has previously stated, 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) They also have distribution networks throughout the United States, as well as access to drug transportation routes used 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 we believe are increasingly operating in Mexico.

As the Committee is aware from my previous testimony before this Committee on September 12, 2006, Mexico has independently implemented controls on pseudoephedrine in cooperation with industry. These controls include: 1) limiting retail sales to pharmacies; 2) limiting sale quantities; and 3) distributors voluntarily agreeing to limit sales to customers with appropriate government registrations (pharmacies) and with legitimate commercial needs.

I am pleased to inform the Committee that, since I last testified, Mexico has re-evaluated their legitimate national needs for pseudoephedrine and ephedrine resulting in a significant reduction to their import quotas. Mexico projected their 2006 imports of pseudoephedrine to be 70 metric tons; for 2007 Mexico reduced their import quota to 40 metric tons (actual imports as of August 30, 2007 were 12 metric tons with 5 additional metric tons pending); and for 2008, Mexico's quota for imports of pseudoephedrine has been set at zero.

In addition to these activities, the DEA works internationally through a variety of existing international efforts.

Project Prism

Project Prism is an international initiative aimed at assisting governments in developing and implementing operating procedures to control and more effectively monitor trade in amphetamine-type stimulants (ATS) precursors to prevent their

diversion. There are currently 95 countries and 5 international organizations participating in this initiative.

Since March 2004, *Project Prism* has used pre-export notifications to monitor shipments of ephedrine, pseudoephedrine, pharmaceutical preparations containing ephedrine or pseudoephedrine, phenyl-2-propanone, and 3,4-methylenedioxyphenyl-2-propanone. On July 9-12, 2007, DEA, under the auspices of the INCB, hosted a Project Prism Task Force meeting in Washington, DC. Through these on-going meetings the objective has been 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. All task force members and the invited observers from India and Germany were in attendance. The primary topic of discussion was an operation called "Crystal Flow," as well as other discussions taking place concerning the regional ATS production and precursor chemical trafficking. The United Nations Office of Drug Control also presented information regarding an on-going project in Southeast Asia on saffrole-rich oils, which are oils used in the manufacturing process for the illegal drug MDMA (Ecstasy).

Operation Crystal Flow

In June 2006, the Project Prism Task Force agreed to launch *Operation Crystal Flow*, a time-bound voluntary operation focusing on the trade of ephedrine, pseudoephedrine, ephedra, and pharmaceutical preparations containing those chemicals, to the extent possible, to the Americas, Africa and West Asia. The operation took place over a six-month period, from January 1 through June 30, 2007. There were 65 participating countries. Of those, 43 were recipient countries and 22 were exporting countries.

During the six-month operational period for *Operation Crystal Flow*, the authorities of 22 countries/territories provided information to the INCB Secretariat on 1,399 shipments of those materials in international trade destined to 119 countries/territories. Of that, 35 notifications were made to task force members due to suspicions that the consignments had some illegitimacy. Of those 35 notices, 18 of the shipments were either declared "as going to" or "likely to be destined for" Mexico. Further, these shipments were either suspended, stopped, released after further verifications, seized, or referred for further enforcement action (controlled delivery). The quantities from the notifications totaled in excess of 53 tons of these chemicals that were stopped, suspended, or seized. This amount was capable of producing approximately 48 tons of methamphetamine.

Analysis of the data has clearly identified a trend for trafficking organizations to target and exploit regions, specifically the African continent and certain West Asian (Middle Eastern) nations, for transiting of these precursor chemicals. The African countries identified in this operation were from six cases involving the Democratic Republic of the Congo (DRC), one case involving Ghana, one case involving Mozambique, one case involving Somalia, one case involving Nigeria, one case

involving Burundi, and one case involving Sudan. Also, identified were cases involving Syria, Iran, Iraq, and the United Arab Emirates.

Intelligence information suggests that Mexico and Colombia-based operatives have made a concerted effort to establish contacts in Africa, and elsewhere, for the purpose of obtaining precursor chemicals, ostensibly destined for the Americas and in particular Mexico. There are other DEA investigations of a similar nature that are outside of the task force's operation, which indicate that traffickers are obtaining or attempting to obtain precursor chemicals in the form of pharmaceutical preparations.

DEA/DHS Long Beach Port Project

Cooperation between the DEA and our law enforcement partners at DHS is of particular importance in investigating the importation of precursor chemicals into the United States. In September 2006, DEA initiated a joint program with Customs and Border Protection (CBP) identified as the "Long Beach Port Project." This project was designed to further combat the diversion of precursor chemicals from source countries destined for Mexico that transit the Long Beach Port. Through this project, DEA and CBP target suspected illegitimate shipments of precursor chemicals. As of July 17, 2007, this initiative has led to the seizure of approximately 77,660 kilograms of ephedra, 4,714 kilograms of pseudoephedrine, 841 kilograms of dimethylcathinone (a schedule I controlled substance analog), 1,300 kilograms of phenylpropanolamine, 14,350 kilograms of red phosphorous, and 5,000 liters of methylamine, anhydrous. These results are very encouraging and, together with CBP and ICE, we are now examining other areas where the program could be instituted to track the importation of precursor chemicals.

International Training

DEA still takes a very aggressive role in training our foreign drug law enforcement counterparts with respect to methamphetamine investigations. These ongoing international programs are designed to provide the latest safety techniques and the latest techniques in detecting and investigating clandestine methamphetamine labs. In 2007, DEA provided or sponsored chemical training to more than 590 foreign partners from Mexico, Africa, El Salvador, Guatemala, Nicaragua, Dominican Republic, Indonesia, Thailand, Afghanistan, Cambodia, Vietnam, China, Singapore, Canada, and The Philippines. This training consisted of courses such as Chemical Diversion Investigations, Clandestine Laboratory Training, and Precursor Chemicals and Chemical Control. These courses are designed to provide the fundamentals needed to conduct basis investigations and the importance of working together on an international level.

Conclusion

DEA continues to aggressively attack the methamphetamine problem by targeting large-scale drug trafficking organizations and depriving them of their ill-gotten gains. DEA routinely seeks to establish new cooperative relationships and enhance existing ones with our foreign and domestic counterparts. These relationships, and the exchange

of information relative to methamphetamine production and chemical shipments, are critical towards combating methamphetamine trafficking in the United States.

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.

**“Breaking the Methamphetamine Supply Chain:
Meeting Challenges at the Border”**

September 18, 2007

**Questions for the Hearing Record
for
Joseph Rannazzisi
Deputy Assistant Administrator
Office of Diversion Control
Drug Enforcement Administration
United States Department of Justice**

QUESTIONS FROM SENATOR BAUCUS

1.) In your testimony, you indicated that Mexico has reduced its pseudoephedrine import quota from 70 metric tons in 2006 to 40 metric tons in 2007. It is your understanding that Mexico will soon announce that as of January 1, 2008, its quota for imports of pseudoephedrine will be set at zero. As of January 1, 2009, sales of pseudoephedrine products in Mexico would be banned. Please discuss the impact these developments will have on the Drug Enforcement Administration’s domestic and international meth law enforcement operations.

RESPONSE:

The Government of Mexico (GOM) has recognized the methamphetamine threat and has acted swiftly and boldly in an effort to address it. The actions of the GOM to deny the availability of these precursor chemicals is extremely significant and at the same time will almost certainly result in trafficking organizations adapting and seeking other geographic locations to obtain them. Smuggling of these materials, like other contraband, into the region is likely to continue. These alternate source locations probably have inadequate regulatory oversight due to capacity issues, such as being technologically unsophisticated and ill-equipped or poorly trained, to effectively monitor the movement of these precursor chemicals that may potentially migrate into Mexico.

DEA will need to remain vigilant and maintain its robust bilateral working relationship with the GOM, as well as with other nations in the region. DEA will also continue its multinational engagement to apply oversight pressure to monitor, to the extent possible, the licit consignments of chemicals and suppression of the illicit movement of same through enforcement activities.

DEA will maintain its relationship with the International Narcotics Control Board (INCB) and continue its participation on the Project Prism Task Force. DEA will also engage raw material producer nations and preparation manufacturer nations, both bilaterally and multi-nationally, in an effort to understand the ever-changing landscape of amphetamine-type stimulant (ATS) precursor chemicals.

2.) Please provide a summary of drug lab and seizure data regarding the increased operations of clandestine meth "Super Labs" operating in Mexico.

RESPONSE:

The requested seizure data is not centrally collected by the Mexican Government. According to our best information, 41 clandestine laboratory seizures were identified and reported in Mexico during 2006. For 2007, the Mexican clandestine laboratory seizures total 27. While Mexico has seized a number of smaller labs, a fraction of the labs, four and three respectively, in each year qualified to be classified as super labs.

3.) Native Americans and Native Hawaiians have the highest meth use rates of any ethnicity in the United States. This trend has been compounded by the fact that the Mexican meth cartels have been specifically targeting Native American reservations for meth distribution. What has the Drug Enforcement Administration been doing to work with and to empower Tribal governments, particularly those on the border, to help them deal with the increased meth trafficking and use in their communities? What more can be done to involve the Tribes?

RESPONSE:

DEA Field Divisions conduct drug investigation education/training for both Tribal Officers and officers assigned to task forces responsible for Indian Country (i.e. Safe Trails Task Forces). Additionally, DEA provides training to interested members of Tribal communities throughout the United States. Further, Tribal Police are invited to participate in the Clandestine Laboratory Certification program at the DEA Training Academy in Quantico, Virginia; in the last two years, 13 Tribal police officers throughout Indian Country have completed the training and certification. In 2007 alone, more than 1500 members of Tribal communities, from reservations that either straddle or are located adjacent to the Northern and Southwestern borders of the United States, have participated in the training and education sessions provided by DEA.

Aside from providing education and training to tribal law enforcement, the DEA actively participates on several Indian Country Joint Task Forces and Interdiction teams that aggressively investigate drug trafficking on reservations. More specifically, DEA participates on three FBI Safe Trails Task Forces and several state and local task forces throughout Indian Country. For example, in April 2007, the Denver Field Division Interdiction Unit hosted a three-day interdiction/enforcement/ training operation which consisted of members from DEA, Bureau of Indian Affairs (BIA), Tribal Police, Montana State Patrol and the FBI Safe Trails Task Force. The interdiction resulted in 25 arrests while at the same time provided drug investigative training to the aforementioned participants. More recently, a continued Joint Task Force investigation of the Wind River Reservation in Wyoming seized methamphetamine and arrested 29 individuals in

September 2007. Due to the continued law enforcement focus on this reservation in particular, methamphetamine has become more difficult to obtain.

While DEA enforcement and intelligence efforts continue to operate throughout Indian Country in a variety of capacities, past investigations have shown that the overriding characteristic behind a successful investigation - one that is able to dismantle drug trafficking organizations - is the ability to work hand-in-hand with other law enforcement agencies active on the reservations. Most importantly, it is necessary for Tribal police to play a consistent and dedicated role in the investigation process.

QUESTIONS FROM SENATOR GRASSLEY

1.) We know that the meth epidemic started on the West Coast in Washington, California and Oregon and has spread east. Has it now hit the East Coast and where do you see some of the hardest hit states?

RESPONSE:

Undeniably, the geographic reach of the methamphetamine problem has touched all areas of the country. The eastern seaboard states have not been immune to its presence. Florida, Georgia, North Carolina and Virginia are among those coastal states that have experienced a significant number of methamphetamine seizures.

In fact, 2007 National Drug Threat Survey from the National Drug Intelligence Center shows that in Florida, Georgia, North Carolina, and Virginia the percentage of state and local law enforcement agencies that identify methamphetamine as the greatest drug threat in their areas was 15.3 percent, 50.5 percent, 15.6 percent, and 11.8 percent respectively. Of those states, Georgia stands out as the state where methamphetamine is a significant concern to state and local law enforcement agencies.

In these states, however, other drug indicators are showing progress. Data from the National Clandestine Laboratory System¹ reflects the reduction in domestic lab activity by decreases in the number of all seized labs incidents in those four states from 953 in calendar year 2004, to 952 in 2005, and 504 in 2006. Quest Diagnostics², who conducted over 9 million workplace drug tests nationally in 2006, reported a 12.5 percent decrease in amphetamines positive rate from 0.48 percent in 2005 to 0.42 percent in 2006 among the general workforce across the United States. In the South Atlantic census region, which includes the four mentioned states, Quest amphetamines positives plateaued in 2006 at 0.31 percent after years of increases: 0.23 percent in 2002, 0.26 percent in 2003, 0.29 percent in 2004, and 0.33 percent in 2005.

2.) The Combat Meth Act has been in effect for a year and the effect on homegrown labs has been remarkable, but we all know we still have a significant meth problem, with much of drug being trafficked from Mexico. What additional legislation would

¹ http://www.usdoj.gov/dea/concern/map_lab_seizures.html

² http://www.questdiagnostics.com/employersolutions/dti/2007_03/dti_index.html

you recommend to close any loopholes to the Combat Meth Act and other meth laws in order to reduce the amount of meth on our streets?

RESPONSE:

The Combat Methamphetamine Epidemic Act of 2005 (CMEA), and the aggressive legislative actions taken by many states prior to its implementation, has had a significant effect in decreasing the number of methamphetamine labs found in the United States. Since it is more difficult to obtain the pseudoephedrine necessary for the production of methamphetamine, clandestine lab manufacturers are resorting to desperate measures and continue to "smurf" (going to many different venues to obtain pseudoephedrine tablets at or just under the sales limit). Since there is no coordination electronically between either pharmacies or convenience stores that sell these tablets, lab manufacturers are hiring individuals to go store-to-store and purchase tablets at the sales limits. In one instance, a lab manufacturer in California hired 20 homeless individuals and over the period of a few days, took them to several different stores in one city so they could purchase these tablets at the sales limit. If a real time database was mandated that connected the logbooks electronically to insure that an individual could not purchase more than their daily limit this would significantly dilute this loophole.

The Methamphetamine Control Act of 1996 required registration of mail order distributors, and the requirement that persons/businesses conducting mail order transactions provide monthly sales records to DEA. This subsequently evolved to include Internet sales because they are not face-to-face transactions. The CMEA removed the mail order and Internet distributor registration requirement, thereby creating an unintended loophole in that although mail order/Internet distributors are required to provide the monthly sales records, without the registration requirement, DEA has no way to determine the mail order/Internet population. Additionally, there is a legal issue regarding prosecuting non-registrants who fail to comply with the law. Amending the legislation to address these issues would likely realize a further reduction in domestic production.

3.) The United States has provided significant funding and assets to the Government of Mexico for counter-narcotics and judicial training, but drug trafficking organizations continue to exercise significant control and illegal narcotics continue to pour over the Southwest Border. Without getting into the possible future aid package currently being discussed, what additional assistance is being provided to the Mexican Government to help them combat meth production and trafficking?

RESPONSE:

DEA's partnership with the GOM to combat methamphetamine has resulted in agreements with respect to multiple anti-methamphetamine initiatives designed to

improve enforcement, increase law enforcement training, improve information sharing, and increase public awareness.

DEA and the GOM agreed to establish specialized methamphetamine enforcement teams on both sides of the border. In Mexico, these teams are focused on investigating and targeting the most wanted Mexican methamphetamine trafficking organizations, while DEA efforts on the U.S. side will focus on the methamphetamine traffickers and organizations transporting and distributing finished product. Other aspects of this U.S./Mexico partnership include, but are not limited to, expanded drug intelligence sharing between DEA and Mexico and the donating of eight DEA trucks used in clandestine laboratory enforcement operations to the GOM.

In Mexico alone the U.S. Bureau of International Narcotics and Law Enforcement Affairs (INL) has provided INL-funded training for over 2,000 Mexican officials in 2006 and 1,837 officials in 2007. In the coming year, there are plans to train 110 Sensitive Investigation Unit officials at two intensive narcotic training schools at DEA's Training Academy in Quantico, Virginia. In addition, we are also planning to conduct a series of different narcotic training schools in Mexico that will cover numerous areas to include basic drug identification, airport and highway interdiction and clandestine laboratory investigations.

4.) The International Narcotics Control Board (INCB) assembles an annual list of country licit requirements for meth precursor chemicals which is then used to compare against company records to show possible diversion points. This year 80 countries are participating in the list but there are some very noticeable gaps that are ripe for diversion.

- **What, if anything, is the State Department doing to urge nonparticipating countries to participate in this process?**

RESPONSE:

In 2006, the 49th United Nations Commission on Narcotic Drugs (CND) unanimously adopted the U.S.-sponsored CND resolution entitled "Strengthening Systems for Control of Precursor Chemicals Used in the Manufacture of Synthetic Drugs." This important resolution "requested" United Nations Member States to provide to the International Narcotics Control Board (INCB) estimates of their legitimate requirements for certain key chemicals used in the manufacture of synthetic drugs, and to the extent possible, preparations containing them. Furthermore, the INCB periodically updates its list of countries as states supply their licit estimates. The most recent update is dated January 31, 2008 and shows that 105 states have provided licit estimates. This expansion from 80 states to 105 states is a measure of the success the State Department has had in encouraging nonparticipating states to submit estimates.

The resolution passed at the CND is voluntary in nature; therefore, no legal requirement exists for countries to comply with the resolution. However, the Department of State is utilizing diplomatic opportunities to urge countries to provide the information

requested to the INCB. In 2006 and 2007, for example, the Department of State instructed U.S. Embassies in priority countries, including Canada, China, India, Mexico, Netherlands and Switzerland, to raise U.S. concerns about methamphetamine production with their host governments; and in this regard, ask that they provide the INCB with the information requested in the resolution. In March 2007, the Department's Bureau for International Narcotics and Law Enforcement Affairs (INL) used the occasion of the 50th CND to reinforce the need to enhance international cooperation to combat methamphetamine and other synthetic drugs and raised the significance of the 2006 resolution. The June 2007 US-European Union (EU) Drugs Troika meeting in Brussels served as another opportunity to emphasize continued cooperation to combat methamphetamine precursors with our European partners, especially with regard to working in tandem with the major chemical producing nations. The June 2007 Joint-Liaison Group meeting with China provided a further venue to address synthetic drug chemical control with Chinese law enforcement counterparts.

The Department of State will continue to use both bilateral and multilateral forums to elevate the importance of precursor chemical control and meeting the voluntary reporting requirements of the 2006 CND resolution. Precursor chemical control was a prominent item on the agenda of the November 2007 meeting of the US-EU Drugs Troika, and will be discussed at the March 2008 CND, which will also include a review of the progress achieved in combating amphetamine type stimulants since the 1998 UN General Assembly Session on Drugs. Precursor chemical control will be one major focus of this discussion. To promote the full implementation of the CND resolution and support ongoing INCB activities, the Department of State has also contributed \$1,400,000 towards the INCB over the past two fiscal years (2006-2007).

- **Corrupt government and company authorities are often contributing factors in the continuation of illicit shipments. What steps are being taken to address these contributing factors?**

RESPONSE:

INL provides funding for anti-corruption assistance to numerous countries throughout the globe. They support multilateral diplomatic efforts against combating high level corruption, prosecuting transnational bribery, tracing stolen assets, strengthening the integrity in government institutions, as well as promoting the United Nations Convention against Corruption as the global standard for anti-corruption action. INL anti-corruption programs received \$4.5 million in FY07 funding.

In addition, the Department continues to work with committed partners in the G8, the Organization of American States (OAS), the Asia-Pacific Economic Cooperation (APEC), the United Nations, the World Bank, and other forums to advance a robust international agenda to diminish the impact of corruption to U.S. national interest.

These activities are not specific to private sector industries such as the chemical industry, but the application is broad enough to make a positive impact in the oversight

and integrity of these sectors as well. By enhancing the capacities of local and national regulatory and law enforcement authorities, we enable international partners to gain more effective control over their legitimate commerce.

- **Currently, the INCB is urging its member states to provide this information, but there is no mandatory requirement for participation. Are stronger efforts being pursued to hold rogue nations and rogue companies accountable for illegal diversions of precursor chemicals?**

RESPONSE:

By participating in international cooperation mechanisms, such as the CND and the INCB's Project Prism, countries are subject to pressure not only from their peers, but the INCB itself, to cooperate to the fullest extent possible in pursuing chemical precursor control efforts. This operational cooperation at the peer-to-peer level reinforces the expectations set out in the CND resolution entitled "Strengthening Systems for Control of Precursor Chemicals Used in the Manufacture of Synthetic Drugs."

On a larger scale, the INCB produces an annual report that provides in-depth analysis of country compliance with the international drug control regime. This report provides recommendations for remedial measures to bring countries in line with the CND resolutions, and the INCB maintains an ongoing dialogue with governments to help ensure treaty compliance, recommending technical assistance or other such measures, when appropriate. The INCB report is widely respected by the international community as providing the world's best scorecard on how governments are doing collectively, as well as individually, in meeting the obligations assumed under the international drug control conventions. The INCB report is one way to motivate countries to comply with their drug-control obligations.

Specific to the chemical industry, the INCB will convene an expert-level workshop in 2008 that will encourage the further development of guidelines for cooperation between the public and private sector in order to promote effective diversion-prevention practices. For example, cooperation between the European Union and its chemical industry have led to increased surveillance efforts and efforts to track and intercept illicit chemical shipments. It is this type of cooperative relationship that is being fostered in order to make the chemical industry aware of and sensitive to the risk of chemical diversion.

The U.S. Department of State will continue to urge our international partners on both a bilateral basis and in multilateral settings to take effective action in enforcing their laws to prevent, in cooperation with chemical companies, the diversion of precursor chemicals from legitimate trade.

It should be noted that determining the legitimate requirements of the listed chemicals is complicated and complex. DEA spent several months working with a

private independent contractor to develop a methodology and to gather the data to develop the initial estimate of the medical needs of the United States for ephedrine and pseudoephedrine. The estimates of medical needs were derived from data the contractor routinely collects and offers to customers to understand the pharmaceutical market. For this analysis, the contractor utilized the following types of data: (1) sales to retail establishments (2) sales by retail establishments to customers, and (3) medical insurance claims. It is, therefore, not surprising that many other governments -- with fewer resources to devote to research and tracking and with less complete records -- find this task daunting. Given the inherent difficulty of producing these estimates, the U.S. has been greatly encouraged by the positive efforts and responses thus far by other governments.

5.) Senator Feinstein and I introduced legislation that would double, and in some cases, triple the penalty for those who market drugs to children. Is there anything else the Federal Government can do to help prevent candy flavored meth from infiltrating and growing in other states?

RESPONSE:

Colored and/or flavored methamphetamine has been found sporadically nationwide since the mid 1980's and is a marketing ploy of some illicit drug trafficking organizations. This is somewhat akin to MDMA (Ecstasy) tablets that are found with bright colors and youthful logos stamped into the pills. By introducing legislation that would enhance the penalty to traffickers who market their product towards children, a much needed enhancement would be provided to law enforcement. As the usage of this type of penalty would grow, traffickers would no doubt take heed to the added jail time attached to their sentence and it is hoped that this will cause a reduction in these types of marketing tactics.

6.) It has long been recognized that the smuggling of drugs and money are interrelated and that cutting off one directly impacts the other. To this end, earlier this year, I introduced S.473, the Combating Money Laundering and Terrorist Financing Act of 2007. This important legislation will further strengthen our efforts to combat money laundering and cash smuggling. This legislation was supported by the Department of Justice. One provision of this important legislation deals with bulk cash smuggling and would increase penalties for those seeking to move large quantities of cash out of the U.S. without registering.

It is my understanding that enforcement of bulk cash smuggling has traditionally fallen to the U.S. Customs Service, which is now known as Immigration and Customs Enforcement or ICE. Further, research has found that currently money laundering investigation conducted between the various branches of our Federal Government are covered by a Memorandum of Agreement dated 1990.

This MOA is between the Department of Treasury, the Attorney General, and the Postmaster General.

This MOA is over 17 years old and involves the Department of Treasury, even though the Customs Service has moved to Homeland Security. What has been done to coordinate money laundering investigations between DEA and ICE, two agencies impacted by the MOA, since the Customs Service became a component of the Department of Homeland Security? Is there an effort underway to update the MOA ensuring that our investigative coverage of bulk cash smuggling and money laundering is as up to date as needed? If not, why not?

RESPONSE:

DEA practices coordination and collaboration on investigations, particularly the sharing of intelligence, since we know, full well, that a single piece of intelligence can provide the critical link that puts unrelated investigations together and leads to the prosecution of once untouchable international targets. Most investigations involving the movement of bulk cash by international drug trafficking organizations and the transportation organizations that service them are coordinated by the DEA-led Special Operations Division (SOD). SOD is a multi-agency center devoted to servicing the field by linking and coordinating related, inter-regional and international drug investigations.

SOD is staffed by representatives of 13 agencies (including ICE), all of whom may have equities involved in money laundering investigations. All of DEA's case information is available through the DEA SOD staff coordinator assigned to any SOD investigation. Their sole job at SOD is to de-conflict and coordinate. DEA also places all of its bulk cash information in the El Paso Intelligence Center (EPIC) database. EPIC is another DEA-led, multi-agency intelligence center, whose mission is to share and coordinate intelligence information with federal, state and local law enforcement authorities.

There have been many changes in the years since the original and amended MOUs were signed. There is no need to alter the underlying purpose of these MOUs. There is no need to renegotiate an agreement merely to change the names of the parties involved.

7.) Much has been said today about the impact the Combat Meth Act has made on reducing domestic meth production. However, as I alluded to in my opening statement, unscrupulous individuals are now gaming the system and obtaining PSE products through a process known as smurfing. By smurfing between various stores and providing false information to pharmacy logbooks, these individuals obtain enough PSE to cook meth. The Combat Meth Act specifically prescribed that logbooks be kept by pharmacies, but specifically required paper logbooks and never addressed electronic systems. Does the DEA believe the Combat Meth Act

should be amended to allow pharmacies to utilize electronic log books? Do you feel this legislation will help stop smurfing?

RESPONSE:

The Combat Methamphetamine Epidemic Act and corresponding state legislative actions have resulted in the dramatic reduction in the number of domestic clandestine laboratory incidents. However, the ability for meth cooks to “smurf” over the counter preparations from multiple outlets is troubling. The fact remains that although there has been a significant decline in domestic methamphetamine production, what remains is believed to be sourced by “smurfing” and other gray-market sales. This route is a significant source of precursor chemicals for sustaining the current domestic production. The CMEA requires purchase entries be in a “logbook” and allows entries to be either in a written or electronic format. DEA believes there is value in the utilization of electronic logbooks, provided they comport to all the necessary legal requirements and allows for the ready inspection by law enforcement officials, for connectivity and transparency of sales to individuals. Pilot projects that have used electronic connectivity suggest that this is an effective tool to identify this kind of diversion. Adapting this legislation to specifically allow for electronic logbooks has the potential to stop some smurfing activities.

**Statement by Senator Pat Roberts
Senate Finance Committee
"Breaking the Methamphetamine Supply Chain:
Meeting Challenges at the Border"
September 18, 2007**

Mr. Chairman, thank you for holding this hearing today on an issue that greatly affects my state and the rest of the nation. Methamphetamine production and use is a growing problem for Kansas law enforcement.

While the number of meth lab incidents has significantly decreased over the past few years, we still face an uphill battle in the fight against meth and other drugs. Even with the decline in the number of meth labs, the price for meth has not increased. This indicates that people have found other ways to get meth.

Around 10 percent of the meth supply in Kansas is produced in labs. This means that 90 percent of the meth in Kansas is imported. Meth is coming into the state from Mexico by way of Texas and Oklahoma on highways 54 and 56.

This poses significant challenges for law enforcement officials. In addition, methamphetamine contributes to criminal behavior, such as burglary, theft, and identity theft.

The fight against meth takes a comprehensive approach including prevention, enforcement, and treatment. I thank all of you for your efforts in combating meth.

OPENING STATEMENT OF SENATOR KEN SALAZAR
September 18, 2007

Thank you, Chairman Baucus and Senator Grassley, for holding this hearing today on the ongoing battle against methamphetamine in this country. Although this is not an issue that would typically come before the Finance Committee, the meth epidemic has taken on a greater international presence, especially as production centers have moved across our borders, and we have a responsibility to address it. I also appreciate the opportunity to discuss the broader fight against meth in Colorado and across our nation.

Combating drug usage in Colorado was one of my top priorities as Attorney General, and it remains a top priority as a U.S. Senator. It will come as no surprise to many of my colleagues who represent rural states that meth use has grown rapidly over the last decade in Colorado, particularly in rural areas of my state. Methamphetamine is also one of the fastest growing and most dangerous drugs in the U.S. today, presenting particularly serious challenges in the West, Midwest and Southwest.

I was an original cosponsor of the Combat Meth Act last Congress, which has had a noticeable impact on meth production in Colorado. This legislation has been extremely successful in limiting access to the ingredients that go into meth, and, as a result, we have seen a significant reduction in the number of domestic meth labs.

Despite these successes, the war against meth is far from over. Demand for meth remains strong and rural communities continue to be affected. Meth usage is still cited by many of the County Sheriffs around Colorado as the number one challenge they face, especially those that work in rural areas in the Northwest, Southwest, and Southeast portions of the state.

In order to adequately equip our law enforcement officers in the ever-changing fight against meth, I have long supported fully funding HIDTA – The High Intensity Drug Task Forces – that help federal, state, and local law enforcement officials target areas where meth usage is most prevalent. I have also worked hard to secure funding to help state and local drug task forces combat meth throughout Colorado.

We also need to think about whether new strategies are needed as we work to decrease demand for the drug, make it harder for people to obtain the ingredients they need to produce meth, and protect our borders against illegal smuggling. That's why today's hearing is so important.

Again, I thank the Chairman and Ranking Member for holding this hearing today, and welcome the opportunity to discuss how we can move forward to combating meth usage in Colorado and across the country.

126

Before the

SENATE FINANCE COMMITTEE

Statement of

**Thomas M. Siebel
Chairman and Founder
The Meth Project**

On

Breaking the Methamphetamine Supply Chain: Meeting Challenges at the Border

Tuesday, September 18, 2007

<http://www.methproject.org>

Introduction

Chairman Baucus, Ranking Member Grassley, and members of the Committee, my name is Tom Siebel, and I am the chairman of the Meth Project, a non-profit organization dedicated to reducing first-time Meth use through public service messaging, public policy, and community outreach.

It is an honor to be here today. I thank you for the opportunity to address the Committee on the subject of methamphetamine prevention.

The Meth Project

We started the Montana Meth Project in 2005 with the objective of dramatically reducing Meth use and developing a prevention program that could be replicated in states throughout the nation.

The Problem

As of September 2005 Montana was overwhelmed by methamphetamine abuse:

- Montana ranked #5 in the nation for per capita Meth abuseⁱ
- 50% of inmates were incarcerated for Methⁱⁱ
- 50% of foster-care admissions were Meth-relatedⁱⁱⁱ

Montana Meth Project Campaign

Central to the program is a research-based marketing campaign that realistically and graphically communicates the risks of Meth use. The campaign's core message, "Not Even Once," speaks directly to the highly addictive nature of Meth.

From September 2005 through September 2007, the Meth Project sustained a large-scale, privately funded, statewide prevention campaign spanning TV, radio, billboards, newspapers, and the Internet. This paid campaign included:

- 45,000 TV ads
- 35,000 radio ads
- 10,000 print impressions
- 1,000 billboards

The Meth Project campaign has since received 40 advertising industry awards including:

- 2 Gold Effie Awards
- Grand Effie Award Finalist
- 7 Gold Addy Awards
- 18 Silver Addy Awards
- Cannes Lion Award
- 7 AdCritic.com “Top Ten” Awards for the best ads in the U.S.

The Meth Project has been cited as a model for the nation by the White House Office of National Drug Control Policy.

Montana Market Results: 2005-2007

From 2005 to 2007, the rate of teen Meth abuse in the United States remained essentially unchanged.^{iv} In the same period in Montana, Meth use declined – and declined dramatically.^v

As of September 2007:

- Montana ranks #39 in the nation for Meth abuse (down from #5)^{vi}
- Adult Meth use has declined as much as 70%^{vii}
- Meth-related crimes have decreased by 53%^{viii}
- Teen meth use has declined very dramatically

The Attorney General of the State of Montana has provided the following commentary on the results we are seeing in Montana:

“The Meth Project is very simply changing the nature of crime control in Montana. As of 2005, the Montana criminal justice system was overwhelmed by the consequences of Meth. If we are able to continue to make the progress we have seen in the past two years, methamphetamine will have changed from a crisis to a manageable problem.”

We are now replicating the successful Montana Meth Project prevention campaign in Arizona, Idaho, and Illinois with the Arizona Meth Project, the Idaho Meth Project and the Illinois Meth Project. We are in discussions to expand to three additional states in 2008.

Conclusion

In conclusion, Montana has a serious Meth problem that is representative of much of the rest of the country. For the past two years, we have privately financed and executed a rigorous, well-defined, and research-based drug prevention program. This program has its basis in science and has been critiqued by some of the foremost prevention experts in the nation. This effort was financed entirely by the private sector at a cost in excess of \$15 million.

We believe that the Meth Project results in Montana have been more significant than any drug prevention program in history.

I respectfully submit that the people of the United States would be well served if the U.S. Congress would consider providing funding to extend the Meth Project to other states.

For example, if \$40 million were made available annually, we believe we could achieve dramatic reductions in teen methamphetamine use in the 10 states represented by this distinguished committee this morning: Montana, Iowa, Arkansas, New Mexico, Washington, Mississippi, Arizona, Idaho, Kansas, and Nevada.

I commend the Committee for continuing to shed light on this dark issue. It is my hope that we can work together to expand the success that we have seen in Montana to additional states across the nation.

I want to particularly thank Chairman Baucus and his staff for their leadership in helping drive Meth from the state of Montana. I also want to thank Director Walters and the staff of the ONDCP for assisting the Meth Project prevention efforts.

I thank you for the opportunity to speak with you today.

ⁱ Office of National Drug Control Policy. *Pushing Back Against Meth: A Progress Report on the Fight Against Methamphetamine in the United States*. 2006.

ⁱⁱ Montana Department of Corrections. *Montana Department of Corrections. Biennial Report*. 2007.

ⁱⁱⁱ Montana Attorney General, Mike McGrath. *Methamphetamine in Montana: A Preliminary Report on Trends and Impact*. January 2007.

^{iv} Substance Abuse and Mental Health Services Administration. *National Survey on Drug Use and Health*. September 2007.

^v Montana Attorney General, Mike McGrath. *Methamphetamine in Montana: A Preliminary Report on Trends and Impact*. January 2007.

^{vi} Office of National Drug Control Policy. *Pushing Back Against Meth: A Progress Report on the Fight Against Methamphetamine in the United States*. November 2006.

^{vii} Montana Attorney General, Mike McGrath. *Methamphetamine in Montana: A Preliminary Report on Trends and Impact*. January 2007.

^{viii} Montana Attorney General, Mike McGrath. *Methamphetamine in Montana: A Preliminary Report on Trends and Impact*. January 2007.

THE METH PROJECT

Radio Script

Phase I

Title: "Tim"

Length: 60 seconds

See, I... stole this person's motorcycle and I ran it up as fast as it would go, and I ran it into a tree. I was hoping I was gonna die there for a while, you know. Hi, my name is Tim, I started doing meth when I was 19. You know, I tried it, and everything that I owned was gone within a month. I lost where I lived, I lost where I worked, just within a month. It's just like that, and I've never seen it come out good for anybody. I did some things that...um... you know, only you know, God can forgive me for. I used to be able to remember, and I used to, you know, I mean I'm still... it is so scary having like months of your life like gone from your brain. There's really no reason to sign your life away like that.

Brought to you by the Meth Project.

THE METH PROJECT

Radio Script

Phase III

Title: "Kara"

Length: 60 seconds

I remember one time I was sitting at my friend's house and we'd been smoking for about four days straight, and I stood up, and I blacked out. I don't really remember but they told me that my heart started beating really, really fast and stuff and I was like throwing up blood. My name is Kara, I'm 15 years old, and I started doing meth when I was 11. My really good friend was like checking my heart and he was freaking out because it scared him. And he's like, "I thought you were gonna die, cuz your heart stopped twice." And they never took me to the hospital. (sniffles) And I feel bad cuz my mom doesn't know (cries) and it just... I think what if I did die? If I did die, I wouldn't be here, I wouldn't get this second chance, I wouldn't get to turn things around, I wouldn't make it to me 16th birthday... and I regret it a lot.

Brought to you by the Meth Project.

THE METH PROJECT

Biography

Thomas M. Siebel

Thomas M. Siebel is the chairman of First Virtual Group, a diversified holding company with interests in commercial real estate, agribusiness, and global investment management.

Mr. Siebel was the founder, chairman, and chief executive officer of Siebel Systems, one of the world's leading software companies, which merged with Oracle Corporation in January 2006. Founded in 1993, Siebel Systems rapidly became a global leader in application software with more than 8,000 employees in 32 countries, over 4,500 corporate customers, and annual revenue in excess of \$2 billion.

Before founding Siebel Systems, Mr. Siebel served as Chief Executive Officer of Gain Technology, a multimedia software company that merged with Sybase in December 1992. From 1984 through 1990, he was an executive at Oracle Corp., where he held a number of senior management positions. Mr. Siebel serves on the board of advisors of the University of Illinois, College of Engineering, and is a director of the University of Illinois Foundation, the Hoover Institution at Stanford University and the Palo Alto Medical Foundation. Mr. Siebel is the founder and chairman of the Meth Project. He is a frequent industry spokesman and is the author of three books: *Taking Care of eBusiness* and *Cyber Rules*, published by Doubleday, and *Virtual Selling*, published by the Free Press. In 2002, the Business Executives for National Security presented Mr. Siebel with the David Packard Award for his achievements as a technology entrepreneur and his contributions to national security. In 2000 and 2001, he was recognized by *BusinessWeek* as one of the Top 25 Managers in the world.

In 1999, 2000, and 2001, *Fortune* magazine recognized Siebel Systems as the fastest, third fastest, and second fastest growing company in the United States, respectively. *Call Center Magazine* inducted him to its Hall of Fame in 2000 in recognition for contributions to the business and technology of customer service. Mr. Siebel is a graduate of the University of Illinois at Urbana-Champaign, where he received a Bachelor of Arts in history, an MBA, a Master of Science in computer science, and a Ph.D. in Engineering (Hon.). The Thomas and Stacey Siebel Foundation is active in the support of education, wildlife habitat preservation, conservation and support for the homeless. The Siebel Foundation, in turn, created the Dearborn Scholars Fund in Montana, the Siebel Scholars Foundation, and the Meth Project. The Siebel Scholars program has contributed \$28.6 million to eight universities to endow scholarship funds for graduate students in computer science and business who demonstrate exceptional academic achievement and leadership. A part-time Montana resident, Mr. Siebel owns and operates the Dearborn Ranch in Wolf Creek, MT, and the N Bar Ranch in Grass Range, MT, both working cattle ranches.



THE METH PROJECT

Mr. Siebel is a member of the Montana Stockgrowers Association, the Montana Ambassadors, and the Montana Team Ropers Association.

The Thomas and Stacey Foundation supports many organizations in Montana, including: Salvation Army in Helena, Great Falls, and Billings, youth sports programs in Wolf Creek, Museum of the Rockies, Department of Fish, Wildlife & Parks, Florence Crittenton Home and Services, Montana Trout Unlimited, the Montana Land Reliance, Grass Range Emergency Medical Service, Dearborn Ranch Scholarship Fund, and Augusta Volunteer Fire Department, among others.

Tom Siebel has enjoyed a long history in Montana, spanning 35 years. His early experiences paved the way for his continued commitment and dedication to the area, and his concern for its future. With methamphetamine abuse and addiction reaching epidemic levels in Montana, he founded the Montana Meth Project, aimed at significantly reducing the prevalence and frequency of methamphetamine use in the state.

Honors and Awards

- White House Commendation, Most Influential Drug Program - Office of National Drug Control Policy, 2006
- Leadership Award - Federal Bureau of Investigation, 2006
- Lewis & Clark Pioneers in Industry Award - University of Montana, 2006
- One of the 50 Best Companies to Work for in Silicon Valley - San Jose Magazine, 2004
- Thomas M. Siebel, Master Entrepreneur of the Year - Ernst & Young, 2003
- Entrepreneurial Company of the Year - Harvard Business School, 2003
- Hall of Fame - CRM Magazine, 2003
- David Packard Award - Business Executives for National Security, 2002
- CEO of the Year - IndustryWeek, 2002
- Top 25 Executives - Readers' Choice - Computer Reseller News, 2002
- Top 25 Managers in Global Business - BusinessWeek, 1999 to 2002
- Top 25 Executives - Computer Reseller News, 2001
- University of Illinois Presidential Award and Medallion, 2001
- IT 100 List of Top-Performing Companies in High Tech - BusinessWeek, 2001
- Second Fastest Growing Company in America - Fortune, 2000
- Top 10 CEOs of 2000 - Investor's Business Daily, 2000
- Hall of Fame: in Recognition of Contributions to the Business and Technology of Customer Service - Call Center Magazine, 2000
- The World's Most Influential Software Company - BusinessWeek, 2000
- Third Fastest Growing Company in America - Fortune, 2000
- The Most Influential Company in IT - Intelligent Enterprise, 2000
- Fastest Growing Technology Company - Deloitte & Touche, 1999
- Fastest Growing Company in America - Fortune, 1999



MY MOM KNOWS
I'D NEVER HURT HER.

THEN SHE GOT IN THE WAY.

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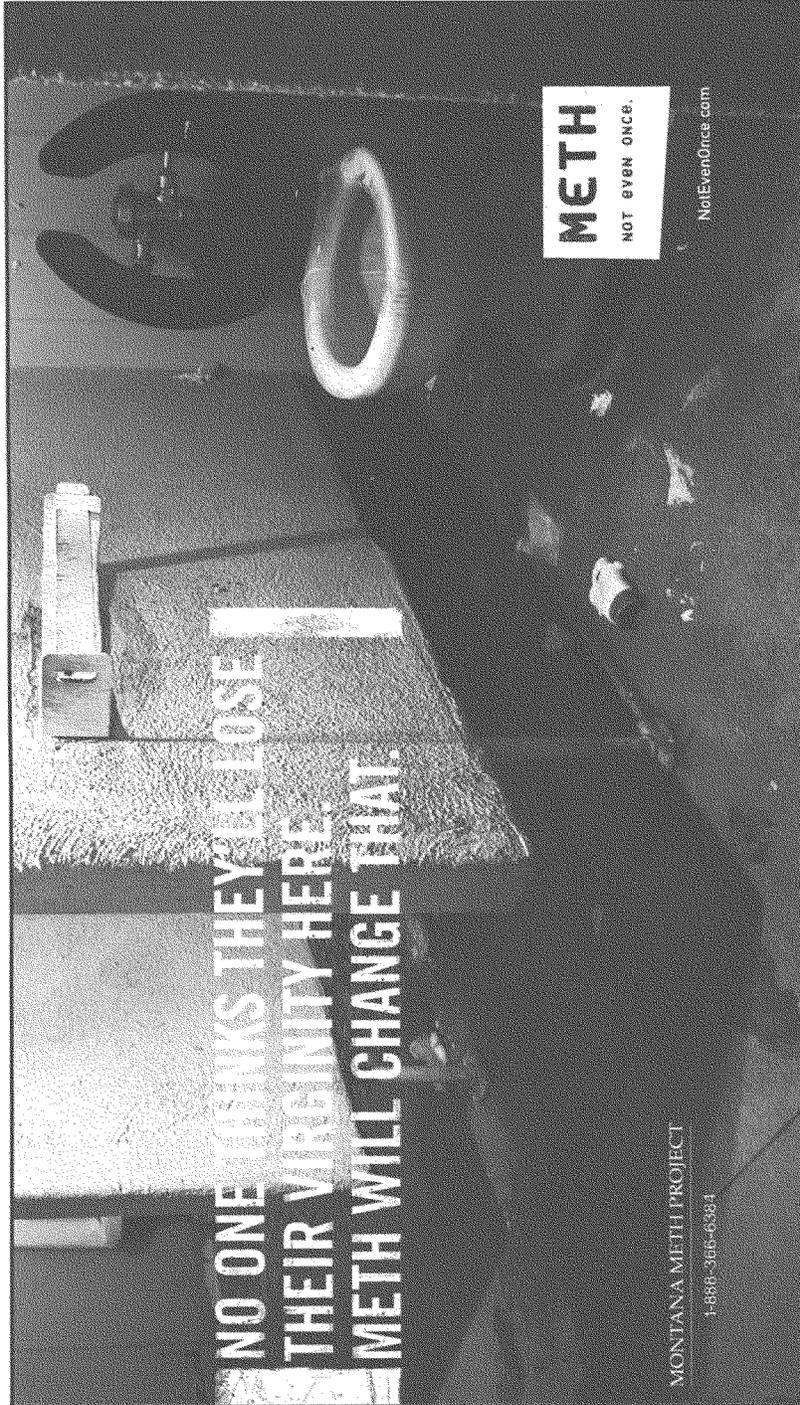
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**United States Senate Committee on Finance Hearing
Breaking the Methamphetamine Supply Chain:
Meeting Challenges at the Border
September 18, 2007**

Questions Submitted for the Record

Questions for Mr. Thomas M. Siebel:

Senator Baucus

- 1) **In your testimony, you mention that as of September 2007, Montana ranked 39th in the nation for Meth abuse (down from 5th). What is the highest priority now for the Montana Meth Project?**

The Meth Project will expand and continue the ongoing research, messaging, and public outreach activities of the Montana Meth Project in 2008 and beyond with the objective of achieving continued reductions in methamphetamine use in Montana.

The Meth Project is also focused on expanding the program into states and communities across the nation with critical Meth problems to significantly reduce methamphetamine use. In addition to Montana, the Meth Project has initiated large-scale prevention efforts—based upon the Montana model—in Illinois, Idaho, Arizona, and Hawaii.

By the end of 2007 we will have launched the Arizona Meth Project, the Idaho Meth Project, the Illinois Meth Project, and the Hawaii Meth Project. We expect to add five additional states in 2008.

- 2) **Given the strong success of the Meth Project in Montana, I understand that the Office of National Drug Control Policy will be using some of your ads in its anti-meth campaign. Please discuss your strategy for a nationwide Meth Project, the resources required and the goals of the program. In your response, include annual resource projections to reduce nationwide Meth use by varying percentages. Specifically, what would be needed to reduce Meth use by 50%, and the projected period of time to achieve that goal?**

We believe we could significantly reduce Meth use in the United States over a period of two to three years if \$300 million in funding were made available annually to execute the Meth Project program nationwide.

With \$100 million annually, we believe we could decrease Meth use up to 45% in two to three years in the top 10 states where methamphetamine use is most prevalent.

The estimated annual cost to extend the Meth Project per state is outlined below. The program must be sustained for at least two years to achieve similar results as those

seen in Montana where—after two years of the program—adult Meth use declined 70%,ⁱ teen Meth use dropped 45%,ⁱⁱ and Meth-related crime decreased 53%.ⁱⁱⁱ

The program could be funded by the U.S. Department of Justice through an existing program like the Community Oriented Policing Services (COPS) program.

State	Estimated Annual Program Cost
Alabama	\$5,290,000
Alaska	\$1,790,000
Arizona	\$6,300,000
Arkansas	\$3,660,000
California	\$46,100,000
California excluding LA & San Francisco	\$16,700,000
Colorado	\$6,300,000
Connecticut	\$6,100,000
Delaware	\$1,910,000
District of Columbia	\$7,460,000
Florida	\$18,700,000
Georgia	\$8,280,000
Hawaii	\$2,820,000
Idaho	\$2,790,000
Illinois	\$18,300,000
Illinois excluding Chicago	\$8,280,000
Indiana	\$6,180,000
Iowa	\$2,950,000
Kansas	\$4,470,000
Kentucky	\$4,350,000
Louisiana	\$6,740,000
Maine	\$1,820,000
Maryland	\$4,760,000
Massachusetts	\$10,500,000
Michigan	\$10,600,000
Minnesota	\$6,330,000
Mississippi	\$4,420,000
Missouri	\$6,060,000
Montana	\$2,310,000
Nebraska	\$3,990,000
Nevada	\$4,150,000
New Hampshire	\$3,200,000
New Jersey	\$12,500,000
New Mexico	\$2,740,000

New York	\$29,400,000
North Carolina	\$7,490,000
North Dakota	\$1,730,000
Ohio	\$11,600,000
Oklahoma	\$3,820,000
Oregon	\$4,740,000
Pennsylvania	\$16,300,000
Rhode Island	\$2,590,000
South Carolina	\$4,050,000
South Dakota	\$1,790,000
Tennessee	\$6,560,000
Texas	\$20,800,000
Utah	\$3,260,000
Vermont	\$1,790,000
Virginia	\$6,190,000
Washington	\$6,310,000
West Virginia	\$3,710,000
Wisconsin	\$5,740,000
Wyoming	\$1,340,000

The Meth Project has assembled a team from across the nation, consisting of some of the most experienced domain experts. To date, it has invested \$20 million in research, message and survey development, testing, and advertising production.

State affiliates of the Meth Project leverage the market research, advertising campaigns, survey methodologies, media planning model, and public outreach programs that have been tried and tested in Montana.

Central to the program is the Project's research-based messaging campaign. Extensive survey, focus group, and media monitoring research data have shown that in order to effectively influence attitudes and behaviors, the Meth Project must reach at least 70% of its target audience three times per week on an ongoing basis with its Meth prevention campaigns. The majority of program costs in each state are allocated to purchasing media time and space to ensure minimum levels of reach and frequency.

For each paid advertisement placed, the Meth Project secures matched, non-paid advertising time and space of equivalent value, which effectively doubles reach and frequency.

3) Do you foresee the need for an international component of the Meth Project?

The Meth Project is focused solely upon reducing demand for methamphetamine in the United States.

4) How readily available are Meth treatment facilities within rural areas?

As the Meth Project focuses on prevention, we would defer to treatment experts on the availability of Meth treatment facilities.

5) Native Americans and Native Hawaiians have the highest Meth use rates of any ethnicity in the United States. This trend has been compounded by the fact that the Mexican Meth cartels have been specifically targeting Native American reservations for Meth distribution. Montana has a very large Native American population. What has the Montana Meth Project been doing to help the Native American communities in Montana?

The Meth Project has worked closely with the Native American groups in Montana, Arizona, and Idaho and engaged leaders from the Native American community as key advisors to the program.

Carl Venne, chairman of the Crow Nation and Anna Sorrell, a member of the Confederated Salish and Kootenai Tribes have been members of the Montana Meth Project's advisory council since its inception in 2005. First Lady of the Navajo Nation, Vikki Shirley, serves as co-chair of the Arizona Meth Project.

In addition to the guidance and input from tribal leaders, the Meth Project has conducted focus group and survey research among Native Americans to ensure the Project's messaging campaigns and community outreach programs are effective in changing attitudes and behavior among Native American populations.

The campaigns currently active in Montana and Arizona reach 70-90% of Native American teens with Meth-prevention messaging three to five times per week through TV, radio, billboards, newspapers, and the Internet. We will also reach Idaho's Native American teens at the same levels once the program launches in early 2008.

The messaging campaign is supported by community outreach programs conducted by the Meth Project on Native American reservations in Montana, Arizona, and Idaho.

6) The National Congress of American Indians (NCAI) has created a national Indian Country Anti-Meth ad campaign. Has the Montana Meth Project consulted with NCAI regarding the possibility of broader coordination with American Indian Tribes? What more can be done to involve the Tribes?

The Meth Project has had success in working with tribal leadership in Montana, Arizona, and Idaho. These leaders act as key advisors, advocate the program in their communities, and coordinate with the broader tribal councils.

The National Congress of American Indians is familiar with the positive impact the Montana Meth Project has had in its communities. We have seen Congress appropriate increased funding for anti-Meth programs in Indian Country and we hope to be involved in this important work.

Senator Grassley

- 1) **The advertisements you use in the Montana Meth Project are very gritty and hard-hitting. How did the teenagers in your research group react when they viewed these ads?**

The Meth Project conducts extensive market research to understand attitudes and behaviors toward Meth in order to develop advertising campaigns that will work to reduce Meth use.

The Meth Project ads we have produced are a direct result of a research-based process that includes quantitative and qualitative input directly from teens, young adults, addicts, recovering users, and parents of teens.

In-depth focus group testing and survey research is conducted with young people to determine which messages will resonate, ensure the ads are credible, and that they will breakthrough.

The Meth Project commissions statewide and national survey research to assess teen attitudes toward methamphetamine and quantitatively test the effectiveness of the advertising campaigns.

Data from the Meth Use & Attitudes Surveys show the Meth Project’s campaigns are having a strong impact.

When teens were asked about specific Meth Project TV ads—Laundromat, Just Once, and Bathtub—the majority reported the ads make them believe Meth is dangerous to try even once and make them less likely to try the drug.^{iv}

	“Laundromat”	“Just Once”	“Bathtub”
Makes Me Believe it is Dangerous to Try Meth Even Once	94%	95%	98%
Makes Me Less Likely To Try Meth	83%	82%	82%
Main Idea is Important to Me	88%	86%	92%
Is Better than Most Anti-Drug Ads	69%	81%	72%
Is Good to Show to Someone Your Age	87%	92%	88%

Teen response to Meth Project TV ads: Laundromat, Just Once, and Bathtub.

Qualitative focus group research also indicates teens believe the ads are effective. The Meth Project has conducted nearly fifty teen focus groups in developing its campaigns. Included below is a representative sample of some of the direct teen feedback:

“These ads are shocking. They caught me off guard, grabbed my attention. If you want to get my attention, shocking is good.”
12th grade boy, Phoenix, AZ

“Creepy, the TV ads. Creepy good. They get the message across. Shows how if you screw up once, you're done for. So you better make the right decision.”
12th grade girl, Missoula, MT

“If you don't know about Meth, looking at these would make me never do it. It's disturbing and unhealthy. Nobody would want to do that to themselves.”
11th grade boy, Phoenix, AZ

“If my sister was thinking about doing Meth I'd want her to see this ad [Just Once].”
8th grade girl, Billings, MT

In addition, public response to the campaign—from teens in particular—has been overwhelming. Included below is an example of a teen who wrote a letter to her local newspaper when the commercials were on a brief two week media hiatus.

Please Bring Back Anti-Meth Commercials

I recently noticed that there are no more advertisements against Meth. I like the commercials that caused so much controversy. I would like to know what happened to them. I feel these commercials educated people of all ages of what Meth can do to you.

I am only 16 and I believe these commercials served their purpose. They scared me so much, but what I believe to be in a good way. I have always been afraid of those types of drugs, but those commercials scared me even more. They showed what I could and don't want to become. I think it would be a good idea to put these commercials back on air.

– *Carly Kennedy Guerra, Billings Gazette Editorial, March 15, 2006*

2) How many other states have contacted you about setting up a similar program and what are the criteria for doing so?

The Meth Project has been contacted by 38 states and the District of Columbia.

Inquires have been received from the following communities:

Birmingham, Alabama	Swainsboro, Georgia	Carson City, Nevada
Tuscaloosa, Alabama	Haleiwa, Hawaii	Clark County, Nevada
Anchorage, Alaska	Honolulu, Hawaii	Las Vegas, Nevada
Barrow, Alaska	Kihei, Hawaii	Reno, Nevada
Fairbanks, Alaska	Boise, Idaho	Albuquerque, New Mexico
Homer, Alaska	Idaho Falls, Idaho	Carlsbad, New Mexico
Juneau, Alaska	Twin Falls, Idaho	Farmington, New Mexico
Mat-su Valley, Alaska	Champaign, Illinois	Las Cruces, New Mexico
Kingman, Arizona	Chicago, Illinois	Otero County, New Mexico
San Carlos, Arizona	Lawrenceville, Illinois	Santa Fe, New Mexico
Sierra Vista, Arizona	Salem, Illinois	Watertown, New York
Tucson, Arizona	Springfield, Illinois	Asheville, North Carolina
Cave Springs, Arkansas	Indianapolis, Indiana	Bismarck, North Dakota
Jonesboro, Arkansas	Lawrenceburg, Indiana	Fargo, North Dakota
Auburn, California	Vincennes, Indiana	Mayville, North Dakota
Burbank, California	Washington, Indiana	Barnsdall, Oklahoma
Chico, California	Clinton, Iowa	Bend, Oregon
Davis, California	Des Moines, Iowa	Medford, Oregon
El Centro, California	Iola, Kansas	Warm Springs, Oregon
Ferndale, California	Wichita, Kansas	University Park, Pennsylvania
Garden Grove, California	Lexington, Kentucky	Chamberlain, South Dakota
Los Angeles, California	Tompkinsville, Kentucky	Chattanooga, Tennessee
Madera, California	Shreveport, Louisiana	McMinnville, Tennessee
Palm Springs, California	Presque Isle, Maine	Amarillo, Texas
Rancho Mirage, California	Kalamazoo, Michigan	Austin, Texas
San Anselmo, California	Lansing, Michigan	Decatur, Texas
San Mateo, California	Brainerd, Minnesota	Houston, Texas
Santa Clara, California	Duluth, Minnesota	Hurst, Texas
Santa Cruz, California	Faribault, Minnesota	Lubbock, Texas
Stockton, California	La Crescent, Minnesota	San Antonio, Texas
Vacaville, California	Minneapolis, Minnesota	Tyler, Texas
Victorville, California	Shakopee, Minnesota	Bristol, Virginia
Yuba City, California	St. Cloud, Minnesota	Prince William, Virginia
Colorado Springs, Colorado	St. Paul, Minnesota	Richmond, Virginia
Denver, Colorado	Staples, Minnesota	Kennewick, Washington
Grand Junction, Colorado	Byram, Mississippi	Olympia, Washington
Hotchkiss, Colorado	Meridian, Mississippi	Seattle, Washington
Bartow, Florida	Cape Girardeau, Missouri	Vancouver, Washington
Celebration, Florida	Ironton, Missouri	Yakima, Washington
Marco Island, Florida	Jackson, Missouri	Washington, D.C.
Ocala, Florida	Rolla, Missouri	Appleton, Wisconsin
Tampa, Florida	Saint Louis, Missouri	Milwaukee, Wisconsin
Brunswick, Georgia	Springfield, Missouri	Plymouth, Wisconsin
Cairo, Georgia	Billings, Montana	Casper, Wyoming
Carrollton, Georgia	Kalispell, Montana	Cheyenne, Wyoming
Cumming, Georgia	Grand Island, Nebraska	Jackson, Wyoming
Marietta, Georgia	Kearney, Nebraska	Riverton, Wyoming
Rome, Georgia	Lincoln, Nebraska	

Requests are typically initiated by governors, state attorneys general, legislators, university officials, healthcare leaders, and parents who are interested in launching the Meth Project program in their states.

Affiliate states leverage the advertising content, intellectual property, survey methodologies, and public outreach programs that have been tried and tested, and apply them in their states with minimum modification.

The Meth Project program consists of:

- An organization and governance model
- Research-based public service messaging campaigns including TV, radio, print, and Internet advertising
- A media planning model designed to ensure maximum reach
- Measurement methodologies including survey and focus group research
- Public policy initiatives
- Community action plans and public outreach initiatives

The following is an example of a statewide rollout of the Meth Project:

Month 1	State Meth Project Founded and Funded
Months 2-3	Advisory Council Formed & Executive Director Hired
Months 2-4	Benchmark <i>Meth Use & Attitudes Survey</i> Executed
Month 4	Meth Project Launched Survey Results Published Advertising Begins: TV, radio, print, outdoor, Internet Website Launched Community Action Programs Initiated
Month 9	Second <i>Meth Use & Attitudes Survey</i> Completed
Month 9	Refresh of Messaging Campaign

The Meth Project is currently operating in Montana, Arizona, Illinois, Idaho, and Hawaii with five additional states expected to launch in 2008.

- 3) **Mr. Kendell stated in his testimony that the Office of National Drug Control Policy (ONDCP) has begun airing ads in Iowa and 7 other states as part of its Meth awareness media campaign. Considering there are more than eight states that are facing a Meth crisis and ONDCP is only spending 10% of its budget toward this aspect of its media campaign, should ONDCP put more emphasis on educating the public on drugs like Meth than what it currently does? Would this be helpful in prevention efforts or a hindrance? Would it be more helpful if the states were responsible for their own anti-Meth ads with the federal government playing a supporting role?**

We respectfully submit that the people of the United States would be well served if the U.S. Congress would provide funding to extend the Meth Project to other states.

By doing so, Congress could help reduce methamphetamine use in this country by as much as 50% over three to five years.

Currently, \$1 million of the ONDCP's funding is directly applied to executing the Meth Project campaigns. To the extent these funds are increased or supplemented by funding from other programs, we believe we can further reduce Meth use in states across the nation.

The data from the CDC, Montana Attorney General, and Quest Diagnostics demonstrate the Meth Project can achieve a significant reduction in Meth use.

- Montana now ranks #39 in the nation for Meth abuse (down from #5 two years earlier) based upon Quest Diagnostics Workplace Drug Testing Report.^v
- Adult Meth use has declined as much as 70% based upon Quest Diagnostics Workplace Drug Testing Report. In comparison, neighboring states of Wyoming and South Dakota—which adopted the same precursor control laws as Montana at the same time—saw 6% and 8% increases in Meth use, respectively.^{vi}
- Teen Meth use declined 45% in the past two years according to data released by the CDC and the Montana Office of Public Instruction.^{vii}
- The Montana Department of Justice reports that Meth-related crimes have decreased by 53% since 2005.^{viii}

We believe that states should play a role in funding and executing their respective programs and could be required to provide matching funds and support to ensure success and sustainability.

ⁱ Montana Attorney General, Mike McGrath. *Methamphetamine in Montana: A Preliminary Report on Trends and Impact*. January 2007.

ⁱⁱ Montana Office of Public Instruction, *2007 Montana Youth Risk Behavior Survey*. September 2007.

ⁱⁱⁱ Montana Attorney General, Mike McGrath. *Methamphetamine in Montana: A Preliminary Report on Trends and Impact*. January 2007.

^{iv} Montana Meth Project, *Montana Meth Use & Attitudes Survey*. April 2006.

^v Montana Attorney General, Mike McGrath. *Methamphetamine in Montana: A Preliminary Report on Trends and Impact*. January 2007.

^{vi} Montana Attorney General, Mike McGrath. *Methamphetamine in Montana: A Preliminary Report on Trends and Impact*. January 2007.

^{vii} Montana Office of Public Instruction, *2007 Montana Youth Risk Behavior Survey*. September 2007.

^{viii} Montana Attorney General, Mike McGrath. *Methamphetamine in Montana: A Preliminary Report on Trends and Impact*. January 2007.



NATIONAL ASSOCIATION OF
CHAIN DRUG STORES

Testimony of:

Peter D. Wolfgram, R.Ph.
President and Chief Executive Officer

Bungalow Drug, Inc.
Belgrade, Montana

On:

Breaking the Methamphetamine Supply
Chain: Meeting Challenges at the Border

To:

United States Senate
Committee on Finance

Tuesday, September 18, 2007

National Association of Chain Drug Stores (NACDS)
413 North Lee Street
Alexandria, VA 22314
703-549-3001
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Introduction

The National Association of Chain Drug Stores (NACDS) appreciates the opportunity to testify before the Senate Finance Committee to share our perspectives on methamphetamine production and abuse, and retailer compliance with state and federal pseudoephedrine sales restrictions. Thank you, Senator Baucus and members of the committee, for inviting me to speak to you today.

I am Peter Wolfgram, President and Chief Executive Officer of Bungalow Drug, based in Belgrade, Montana. Bungalow Drug is a family-owned, hometown pharmacy chain. I have been a practicing, registered pharmacist since 1972. My family has resided in the Bozeman area since 1974 and I have worked as a pharmacist for both chain and independent pharmacies. We purchased Bungalow Drug in 1989, and since that time, we have owned up to five pharmacies and a card and gift store. We currently have three locations in Montana and have 24 employees including eight full- and part-time pharmacists.

We provide pharmacy services for approximately 3,000 patients in both urban and rural areas of Montana. Driscoll Drug in Butte, Montana competes with a number of chain pharmacies, while Castle Mountain Drug in White Sulphur Springs, Montana and Townsend Drug in Townsend, Montana are the only pharmacies in their respective counties.

My company has been a member of the NACDS since 2002. NACDS represents the nation's leading retail chain pharmacies and suppliers, helping our members better meet the changing needs of their patients and customers. NACDS members operate more than 35,000 pharmacies, which employ 108,000 pharmacists, fill more than 2.3 billion prescriptions yearly, and have annual sales of over \$700 billion. Other members include almost 1,000 suppliers of products and services to the chain drug industry.

Our membership is deeply concerned about the problems of methamphetamine production and abuse, and we have worked to develop solutions to this devastating

problem in our country. Even before the introduction of state and federal legislation, the majority of the chain and community pharmacies had taken voluntary, proactive steps to reduce the theft and illegitimate use of methamphetamine precursors, that is, products containing pseudoephedrine and ephedrine. We took these steps because we understood the importance of addressing the methamphetamine problem, despite the potential that instituting barriers to consumer access to these products may have led to consumer complaints and reduction in sales. NACDS member companies:

- Placed these products behind pharmacy and/or sales counters voluntarily, or had otherwise limited access to these products in their stores,
- Initiated voluntary sales limits of these products,
- Participated in voluntary education and theft-deterrent programs such as Meth Watch,
- Voluntarily eliminated consumer self-access to pseudoephedrine products in their stores in geographic areas where methamphetamine abuse has been a problem,
- Participated in youth anti-methamphetamine education efforts,
- Educated their employees about methamphetamine abuse to raise awareness and prevent questionable sales of these products, and
- Worked with law enforcement by reporting suspicious activity in their stores.

Moreover, our members have worked closely with the Drug Enforcement Administration (DEA) and state and local law enforcement officials since 1995 to stem the tide of methamphetamine production in communities across the U.S.

State Initiatives

Before the federal government passed legislation, many states had acted to address the methamphetamine problem. The Montana legislature acted in 2005 to pass legislation that has had a significant impact on methamphetamine production in my state. I testified on behalf of this legislation, SB 287, which is very similar to the federal Combat Methamphetamine Epidemic Act: there is a nine gram per 30 day limit, the purchaser must show photo identification and sign a logbook, and pseudoephedrine products must be placed behind a store counter or in a locked cabinet. The number of

methamphetamine labs in Montana is on the decline, as we are hearing is the situation across the country. In 2004, Montana law enforcement seized 64 meth labs; while in 2006, there were only 16 seized.

Federal Initiatives

The Combat Methamphetamine Epidemic Act “Combat Meth Act” expanded on the differing state requirements to create a national standard for retailers to follow for limiting access to methamphetamine precursors. NACDS worked closely with Congress in drafting the Combat Meth Act in the last Congress, and appreciates your willingness to continue this working relationship. We also commend this committee for continuing the Congressional focus on the troubling issues surrounding methamphetamine production and addiction.

One national standard for retail availability is important because a patchwork of requirements is confusing to consumers, law enforcement, and retailers. For chain pharmacies, which operate in practically every state, city, town, and county in the country, it is complex and costly to have to create and update different policies, procedures, and employee training programs for each pharmacy outlet. For these reasons, NACDS sought preemption of state methamphetamine precursor laws in the Combat Meth Act. Although Congress ultimately chose not to preempt these state laws, the Combat Meth Act has become a national standard for the retail availability of methamphetamine precursors. This has streamlined our members’ operations and has allowed for better and quicker compliance nationwide.

We believe that the Combat Meth Act is helping significantly to reduce domestic methamphetamine production, that is, the numerous “mom-and-pop” methamphetamine labs that had become the scourge of rural America. Across the U.S., the DEA recorded 17,170 meth lab incidents in 2004. By 2006, this number had dropped 57% to 7,347.

Now that the domestic methamphetamine *production* problem is being addressed, we support Congressional efforts to focus more keenly on eradicating methamphetamine

addiction and importation. With the recent, steep decline in domestic methamphetamine production and availability, foreign methamphetamine sources are filling the void. Despite the success of the Combat Meth Act in working to eliminate the methamphetamine lab problem, far too many people remain locked in deadly methamphetamine addiction.

Initial compliance with the Combat Meth Act was challenging for the chain pharmacy industry. We had to train our employees who conduct sales transactions to the requirements of the Act and we had to certify with DEA that we had completed such training, and receive acknowledgement from DEA that each pharmacy location had been certified. The DEA provided us with the final rules only two weeks before the compliance deadline. Although, it was not terribly difficult for my pharmacies to comply within the two week timeframe, I understand that some of the larger pharmacy chains had difficulty coordinating internal efforts to comply by the deadline. However, we would like to thank DEA for working closely with chain pharmacies to help us achieve compliance. DEA officials made themselves available day and night to answer questions and resolve problems. We continue to enjoy an excellent relationship with DEA, and appreciate DEA's willingness to work with the chain pharmacy industry.

Alternative Available

Before I conclude my remarks, I would like to add that many drug manufacturers have reformulated their products to replace pseudoephedrine with phenylephrine, thus alternative decongestants to methamphetamine precursors do exist and are readily available in pharmacies and other retail locations. It is important that pseudoephedrine products remain on the market for patients who require them for their health care needs. However, many patients find that the alternative decongestants also meet their needs, and they can easily access such products without having to be concerned about state and federal retail sales restrictions.

Conclusion

A comprehensive approach is necessary to effectively address the methamphetamine problem. Although state legislatures and the Congress have passed comprehensive legislation that has sharply reduced domestic methamphetamine production, the problems of methamphetamine importation, use, and addiction are still with us today. We would urge this Committee to take appropriate measures to stem the flow of methamphetamine from abroad, and we will continue to work with Congress to help curb the illicit use and production of methamphetamine.



NATIONAL ASSOCIATION OF
CHAIN DRUG STORES

October 19, 2007

The Honorable Max Baucus
Chairman
Committee on Finance
United States Senate
Washington, DC 20510

RE: September 18, 2007 Senate Finance Committee Hearing on "Breaking the Methamphetamine Supply Chain: Meeting Challenges at the Border"

Dear Chairman Baucus:

Thank you and the Members of the Senate Finance Committee for the opportunity to share our perspectives on methamphetamine production and abuse, and retailer compliance with state and federal pseudoephedrine sales restrictions.

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P.O. Box 1417-D49
Alexandria, Virginia
22313-1480

I am pleased that you have asked for additional information concerning the issues raised in my testimony. I have copied your questions below and provided answers.

I. Senator Baucus' Questions

1) What difficulties have you experienced in complying with "behind the counter" requirements enacted in the Combat Meth Epidemic Act?

Most NACDS member companies were certainly challenged complying with such a sweeping law in just six months, compounded by the fact that we had many questions about how the Act's language would be interpreted that were not answered until DEA issued regulations. As I stated in my testimony, the regulations were not released until about two weeks before the statutory compliance deadline, many pharmacies had to scramble to make sure they could comply within the two week time frame. However, I do want to stress that DEA has been very helpful since the regulations were issued, and was especially helpful in the days when we were working to meet the compliance deadline.

The Act required pharmacies to train their employees to comply with the requirements of the Act. This was not necessarily difficult for a small chain like mine, but was challenging for the large pharmacy chains to develop and implement a training program for their thousands of locations. The Act required DEA to develop content for the employee training programs, so we had to await the release DEA's training content to be sure we were training our employees properly.

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The Act requires pharmacies to self-certify with DEA. The self-certification process did not begin until about two weeks before the compliance deadline. Many pharmacies were challenged in getting all their individual pharmacy locations certified with DEA by the compliance deadline.

DEA's rules implemented the Act's logbook requirement to require that the logbooks pages be bound by stitching, glue, or another permanent-type of binding. Many chain pharmacies had implemented logbook procedures that did not incorporate this type of binding. After the rules were issued, they had to redouble their efforts to comply with the bound logbook requirement.

The Act's language was unclear about whether the daily sales limit was to be interpreted as rolling 24-hour limit or a calendar day limit. This was clarified in the rules. Following the release of the rules, pharmacies had to implement policies and procedures to comply and train employees accordingly.

Because we recognize the importance of eliminating the meth problem, we have done everything we can to quickly comply with the Combat Meth Act and similar state laws. Moreover, we do everything we can to assist law enforcement officials in their investigations of meth-related crimes and incidents.

- 2) ***As a family-owned pharmacy, with locations in both rural and urban populations, how do you work with local law enforcement once you have identified someone who may be violating the Combat Meth law?***

As I mentioned in my answer to the previous question, we do everything we can to assist law enforcement officials in their investigations of meth-related crimes and incidents. When we identify someone who *may* be violating the Combat Meth law, we will deny the sale of the products to the suspicious party if we feel we can do so without causing harm to ourselves and our patients. Of course, we always refuse to conduct transactions that we know will result in a clear violation of the law. Afterward, we contact law enforcement officials to notify them of the suspicious transaction, or attempted transaction, so that they may investigate. We continuously work with law enforcement, providing all the information we can to assist their investigations.

I would also add that in 2005, I personally testified in favor of Montana SB 287, which passed into law, and has assisted law enforcement in dramatically reducing meth production in Montana.

II. Senator Grassley's Questions

1) What has been your biggest hurdle to implementing the "behind the counter" provisions of the Combat Meth Act in your pharmacies?

I would have to say that the biggest hurdle to complying with the Combat Meth Act was the Act's aggressive compliance timeline. Even DEA was challenged to promulgate rules within the timeline established by Congress. However, due to the urgent nature of the meth problem, we understand why Congress decided on such an aggressive timeline.

Most NACDS member companies were certainly challenged complying with such a sweeping law in just six months, compounded by the fact that we had many questions about how the Act's language would be interpreted that were not answered until DEA issued regulations. As I stated in my testimony, the regulations were not released until about two weeks before the statutory compliance deadline, so many pharmacies had to scramble to make sure they could comply within the two week time frame. However, I do want to stress that DEA has been very helpful since the regulations were issued, and was especially helpful in the days when we were working to meet the compliance deadline.

2) What other changes do you think would be helpful in further diverting pseudoephedrine into the hands of local meth manufacturers?

We ask Congress to fully fund the Byrne-JAG Program and COPS program at their authorized levels. State and local law enforcement officials need this funding so that they can re-direct resources previously used for meth labs toward investigating and pursuing drug trafficking organizations. Unfortunately, due to cuts in federal funding, we understand that this has not been possible.

Since the vast majority of meth being abused in the U.S. is smuggled from abroad, we believe that Congress should look to stopping this flow from foreign sources, particularly Mexico. We are hearing that this Mexican meth is filling the void created by the Combat Meth Act, as the Combat Meth Act has been successful in sharply reducing domestic meth production.

The Drug Enforcement Administration, the Department of State, and Department of Homeland Security have engaged in numerous investigations, operations, and other initiatives in concert with each other and foreign officials to halt the international production and smuggling of meth. We urge Congress to continue to provide the necessary funds to these agencies to continue and expand their work in these areas, as this is critical to stemming the flow of meth into the U.S.

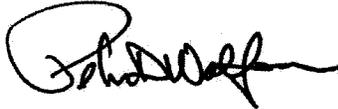
We must also reduce the demand for meth. With respect to reducing the demand for meth, I would like to highlight the testimony before this Committee of Mr. Thomas M.

Siebel with the Montana Meth Project. The Montana Meth Project has had a remarkable impact in reducing meth use in Montana, and the success of this project is being replicated in Arizona, Idaho, and Illinois. Mr. Siebel believes that the Montana Meth Project has had more significant results than any drug prevention program in history. We would echo his request that Congress consider providing funding to extend the Meth Project to other states.

Conclusion

We are grateful for the opportunity to provide further information about retail pharmacy's experiences with the methamphetamine problem and legislation and other initiatives to reduce, and hopefully eliminate, this problem. If we can provide additional assistance, please contact NACDS' Acting Senior Vice President, Government Affairs, Paul Kelly at 703-837-4216.

Sincerely,

A handwritten signature in black ink, appearing to read "Peter D. Wolfgram". The signature is fluid and cursive, with a large initial "P" and "W".

Peter D. Wolfgram
President and Chief Executive Officer
Bungalow Drug, Inc.

COMMUNICATION

**Written Statement of
McNeil Consumer Healthcare**

**For the
Committee on Finance
United States Senate**

On the Hearing

**“Breaking the Methamphetamine Supply Chain:
Meeting Challenges at the Border”**

September 18, 2007

On behalf of McNeil Consumer Healthcare (McNeil), we thank Senators Baucus and Grassley and the Members of the Senate Finance Committee for this opportunity to provide information on McNeil’s actions to address the illicit use of over-the-counter (OTC) pseudoephedrine (PSE) products in response to the hearing on “Breaking the Methamphetamine Supply Chain: Meeting Challenges at the Border.”

McNeil markets a broad range of well-known and trusted over-the-counter (OTC) products around the globe. McNeil is most widely recognized for the complete line of TYLENOL® acetaminophen products, the leading pain reliever brand in the adult and pediatric categories. The TYLENOL® product line consists of hundreds of products across a variety of pain categories including: arthritis pain, pain with accompanying sleeplessness and upper respiratory. Other McNeil brands include BENADRYL® allergy medicines; IMODIUM® A-D anti-diarrheal; MOTRIN® IB; PediaCare® upper respiratory medicines for infants and children; ROLAIDS® antacid products and ST. JOSEPH® Adult Regimen Aspirin. McNeil is also the worldwide leader in providing important medicines to relieve the symptoms of cough and colds including sinus related problems. These products include SUDAFED® and SUDAFED PE® nasal decongestants.

Although PSE has proven to be a safe and effective treatment for sinus and cold symptoms, we are very much aware that the diversion of OTC PSE products for illicit use in the manufacture of methamphetamine has become a serious public health concern. McNeil commends the Congress for its passage of the Combat Methamphetamine Epidemic Act (CMEA) in March 2006. The tighter controls on retail sales of PSE products, imposed by the CMEA, has reduced the retail diversion of OTC PSE products as reflected in the report and statistics released by the DEA in July 2007 finding a 58 percent decrease in the number of methamphetamine laboratories seized in the year before the CMEA was passed. Retail diversion had been a significant source of illicit

manufacture of methamphetamine by small toxic laboratories. The CMEA has been an important step in the fight to reduce the abuse of methamphetamine in the United States.

For its part, McNeil has worked diligently to investigate the scope and extent of this problem including contacting state and federal law enforcement officials to gather information on misuse of OTC PSE products. McNeil has made critical business decisions to reduce the potential for diversion of its OTC products based on the results of this investigation and input from law enforcement authorities. The following is a summary of the actions taken by McNeil and additional observations about the current U.S. and international market for OTC decongestant products.

When law enforcement first raised the issue of diversion of PSE in the mid-1990s, McNeil took appropriate steps to become educated on the issues to reduce the potential that its products would be used for illicit purposes. McNeil joined with other manufacturers through the Consumer Healthcare Products Association (CHPA) in establishing a task force to study the problem of diversion of PSE and identify areas where industry could assist law enforcement. The initial information provided by law enforcement indicated that diversion of PSE was predominantly from single entity PSE solid dosage form products, most of which were being diverted through rogue distributors and retail outlets. Because the problem of PSE diversion persisted even after federal and state actions to curtail unlawful sales, some states began to consider scheduling all PSE products. For example, in 2004 Oklahoma became the first state to regulate PSE products as Schedule V controlled substances. Many of these new state laws provided exemptions that mirrored federal law in providing an exemption for PSE products whose formulations could not be readily used for illicit manufacture of controlled drugs.

McNeil was previously aware from law enforcement authorities that single entity PSE products had been reported to be used in illicit manufacture of methamphetamine. There was little information that combination PSE products could be readily used as a viable source of methamphetamine production. Nevertheless, McNeil understood that it was important to determine whether its PSE combination products, both solid and liquid, could be a source of illicit manufacture of methamphetamine. In May 2004, working closely with state and federal authorities, McNeil designed a scientific study to determine the potential for clandestine laboratories to extract PSE from various OTC formulations and the potential to convert this material to methamphetamine. McNeil met with the DEA in January 2005 to share the initial study findings and seek input for its second study on the potential to convert OTC PSE to methamphetamine. These studies were completed in the second quarter of 2005.

In summary, McNeil found that the manufacture of methamphetamine by small toxic laboratories is relatively simple and recipes to make methamphetamine are widely available in the public domain. McNeil's studies unfortunately demonstrated that OTC PSE products could be converted for illicit use and confirmed that all types of

formulations including single ingredient and combination products, as well as all types of dosage forms, including tablets, gel caps and liquids, could theoretically be used to make methamphetamine. The results provided scientific proof that OTC PSE products could be converted to methamphetamine using either extraction or direct approaches. In May 2005, McNeil again met with DEA to report the results of its studies. McNeil worked with the DEA to publish these studies so that the industry and state law enforcement authorities could be informed of these important findings.

As a result of its scientific studies, McNeil withdrew a petition it had filed in Oklahoma in which McNeil had requested an exemption for its OTC PSE formulations. McNeil also cancelled all new launches of PSE products and by the end of the second quarter of 2005, McNeil stopped all promotions of its PSE products. Further, by the end of the second quarter in 2005, McNeil implemented a plan to reformulate its PSE-based OTC products with phenylephrine. Phenylephrine has been found to be an effective decongestant but is not a precursor in the illicit manufacture of methamphetamine. In the first quarter of 2006, McNeil began discontinuing sales of PSE products to coincide with the launch of reformulated products in the first and third quarters of 2006.

McNeil's reformulation of its OTC products has resulted in a significant reduction in sales of PSE OTC products. In 2004, McNeil sold more than 80 million packages of decongestant, all of which contained PSE. By 2006, as a result of the reformulation, only 50 percent of all of the OTC packages sold by McNeil contained PSE. As of August 2007, 88 percent of all decongestant products sold by McNeil contain phenylephrine, thus, decongestant PSE products are now only a small percentage of McNeil's sales. It is worth noting that these sales include legacy Pfizer brand products such as Sudafed which McNeil acquired in December 2006. Pfizer was the first manufacturer to reformulate its leading decongestant PSE product, Sudafed, to phenylephrine.

The industry-wide decongestant market has followed a similar trend in that reformulated phenylephrine products now represent the majority of the decongestant market. At the start of 2005, industry sources estimated that PSE represented almost 97 percent of the OTC decongestant packages sold in the United States. However, PSE products currently represent only about 23 percent of the oral decongestant packages sold. Thus, industry-wide, phenylephrine products now represent the majority of OTC decongestant packages sold in the United States. In addition to McNeil and Pfizer, Procter & Gamble, Wyeth, Novartis and Bayer have all introduced reformulated phenylephrine products within the last 12 – 18 months. More than 175 reformulated phenylephrine products have been launched in this time period.

McNeil is also aware that unlawful imports and exports of PSE in bulk and finished form throughout the world continue to be a problem. The quota provisions for PSE established under the CMEA should assist the DEA in limiting the imports of PSE to only those amounts necessary to meet legitimate medical need. McNeil has implemented

a regulatory program to ensure the security of its PSE and phenylephrine products imported into and distributed throughout the United States. In addition, McNeil has implemented a wide range of additional controls in the handling of raw material, manufacturing and distribution of PSE products to limit the chance of diversion of our products and raw materials. These additional controls include manual verification of the quantities of raw material and drug product received and shipped by our manufacturing plants and distribution centers as well as monitoring of our customer ordering habits to identify atypical levels of product requested.

McNeil's worldwide affiliates continue to market PSE products in other countries. However, these affiliates have taken steps consistent with the guidance provided by the United Nations Convention Against Illicit Traffic in Narcotic Drugs and Psychotropic Substances to safeguard distribution of PSE bulk and finished dosage forms. These actions include maintaining appropriate security and validation of customers in each country for the import and export of PSE products to its marketing partners around the globe. McNeil and its affiliates understand the concern about diversion of PSE from legitimate international channels which then can become a source of unlawful imports of methamphetamine in the United States and other countries. We also note that the State Department has certified that the top five PSE exporting countries and the top five PSE importing countries have cooperated with the United States or taken action on their own to comply with the goals and objectives of the U.N. conventions. McNeil will continue to monitor these reports for compliance by the leading PSE source and consumer countries.

In conclusion, the CMEA and the reformulation of PSE products by McNeil and other companies have had a significant impact on reducing the diversion of OTC decongestant products for illicit manufacturer of methamphetamine. This has been done without negatively impacting the availability of safe and effective medicine for consumers. McNeil will continue to work with Congress and law enforcement authorities to secure the nation's OTC drug supply and support efforts to disrupt the illicit supply chain for methamphetamine.

