



U.S. Immigration and Customs Enforcement

STATEMENT

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REGARDING A HEARING ON

“Stopping the Poison Pills: Combatting the Trafficking of Illegal Fentanyl from China”

BEFORE THE

UNITED STATES SENATE
CAUCUS ON INTERNATIONAL NARCOTICS CONTROL

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10:00 a.m.
226 Dirksen Senate Office Building

Chairman Grassley, Co-Chairman Feinstein, and distinguished members:

Thank you for the opportunity to appear before you today to discuss the crisis of illicit fentanyl in the United States and the efforts of U.S. Immigration and Customs Enforcement (ICE) to target, investigate, disrupt, dismantle, and bring to justice, the criminal elements responsible for manufacturing, smuggling, and distributing this dangerous opioid.

As the largest investigative agency within the U.S. Department of Homeland Security (DHS), ICE Homeland Security Investigations (HSI) investigates and enforces more than 400 federal criminal statutes, including those contained in Title 8 of the *Immigration and Nationality Act*, Title 19, U.S. customs laws, Title 18, the general federal criminal code, and Title 21, the *Controlled Substances Act*. ICE-HSI uses these authorities to investigate all types of cross-border criminal activity in close cooperation with U.S. Customs and Border Protection (CBP), the Drug Enforcement Administration (DEA), the U.S. Department of State, the U.S. Food and Drug Administration (FDA), the U.S. Postal Inspection Service (USPIS), as well as other federal, state, and local law enforcement agencies, to target Transnational Criminal Organizations (TCOs) that are supplying heroin and illicit fentanyl to the United States.

Today, I would like to highlight our efforts to combat the flow of illicit fentanyl from China into the United States, which has wreaked havoc on so many lives. Specifically, I will discuss how we are increasing our presence at international mail and parcel facilities through which we are seeing the most potent fentanyl-related substances entering the United States. I will also outline the numerous multiagency, collaborative platforms that we are continuing to utilize, which have proven successful in identifying, disrupting, and dismantling transnational criminal organizations that operate in the land, air, and sea environments. Finally, we recognize that this fight does not and should not begin or end at our borders. With that said, I will discuss how ICE is proactively sharing critical information and intelligence with our law enforcement partners in China to investigate and prosecute members of foreign TCOs, and thereby attack the problem before it reaches our borders.

U.S. Fentanyl Epidemic

The United States is in the midst of a multifaceted and deadly epidemic of opioid and illicit fentanyl abuse. Fentanyl is a Schedule II synthetic opioid that is used medically for severe pain relief in patients that are already opioid tolerant. It is 50-100 times more potent than morphine. For reference, consumption of as little as two milligrams - an amount less than three grains of salt - of pure fentanyl can be fatal. As the agency responsible for investigating violations of laws governing the illicit international movement of goods and people, we recognize that the global movement of opioids, including fentanyl, is having a devastating impact in our country. Based on investigative efforts and intelligence, U.S. law enforcement has identified China as the primary source of illicit fentanyl and fentanyl analogues entering our country.

Illicit fentanyl, fentanyl analogues, and their chemical precursors are most often produced in China. From China, these substances are shipped primarily through mail carriers directly to the U.S., or through TCOs in Mexico, Canada, and the Caribbean. Once in the Western Hemisphere, fentanyl or its analogues are prepared and then either mixed into heroin supply, or pressed into pill form, then moved to the illicit U.S. market where dependency on prescription opioids and heroin remains at epidemic proportions. In some cases, traffickers have shipped industrial pill presses from China to the United States to operate fentanyl pill press mills domestically. Mexican TCOs also receive shipments of fentanyl, fentanyl analogues, and their precursors directly from China. There is strong evidence that large shipments of fentanyl move from China to Mexico and the shipments are not opened until they are within the United States. Mexican cartels have seized upon this business opportunity because of the profit potential of synthetic opioids and have invested in growing their share of this market. Because of its low dosage range and potency, one kilogram of fentanyl purchased in China for \$3,000 - \$5,000 can generate upwards of \$1.5 million in revenue on the illicit market, according to our investigative data

Fentanyl Shipments Through Mail and Parcel Facilities

Seizures of illicit fentanyl and other opioids at international mail facilities (IMFs) have increased over the last few years. Though fentanyl seizures made at land crossings are higher in number and larger in volume, the fentanyl seizures from mail and express consignment carrier (ECC) facilities are more potent. The majority of illicit fentanyl in the international mail and ECC environments are shipped with purities of over 90 percent, whereas the majority of fentanyl in the land border environment is seized with purities of less than 10 percent due to adulteration by Mexican TCOs in order to increase profits by increasing volumes of the substances. Purchasers can also access open source and dark web marketplaces for synthetic drugs, like fentanyl, where they can be easily purchased online and then shipped into the United States. TCOs have long realized that they potentially could leverage the vulnerability of the mail system and express consignment industry and now exploit the voluminous traffic of parcels entering the United States generated from the explosion of the e-commerce market as a means to further their criminal activity.

In an effort to combat opioid trafficking, ICE-HSI has established a presence at IMFs and ECCs in Los Angeles, San Francisco, Chicago, Memphis, and New York. We continue to target supply chain networks and coordinate with international and domestic partners to provide field training, highlight ongoing trends, and provide best practices for officer safety. In support of the detection and analysis effort, ICE-HSI is fully engaged with the DEA Special Operations Division (SOD), the CBP National Targeting Center (NTC), and Department of Justice's (DOJ) Organized Crime Drug Enforcement Task Forces' (OCDETF) Fusion Center to identify shipment routes, target parcels that may contain heroin, illicit fentanyl, fentanyl-related substances, and manufacturing materials, and fully exploit financial and investigative analyses. While this is a good start, we recognize much more needs to be done.

ICE-HSI's Lines of Effort

Border Enforcement Security Taskforces (BESTs)

Border Enforcement Security Taskforces (BESTs) are our primary platforms to investigate opioid smuggling. Through them, ICE-HSI utilizes the agency's unique customs and

immigration authorities, and leverages critical partnerships with state, local and federal partners to maximize its impact on the operation of TCOs within our communities. We currently operate BESTs in 62 locations throughout the U.S., an increase of 48 percent from Fiscal Year (FY) 2016, in response to the President's Executive Order 13773 on TCOs and the Opioid Epidemic. BESTs leverage the participation of more than 1,000 federal, state, local, and foreign law enforcement agents and officers, representing over 150 law enforcement agencies, to target opioid smuggling.

In response to the opioid crisis, ICE-HSI, with significant participation from CBP, established a BEST at an express consignment carrier facility in Memphis, Tennessee, to specifically target daily opioid shipments. With the support of OCDETF, BEST Memphis is maximizing fentanyl interdictions and opportunities for investigative follow up. Due to the boom in e-commerce and the accessibility of illicit narcotics via the dark web, ICE-HSI has bolstered operations at IMFs throughout the U.S. We have taken the best practices developed at BEST Memphis and replicated it at the JFK IMF in New York. A list of some our successes includes:

- In FY 2018, BEST Memphis initiated a total of 204 controlled deliveries throughout the world that resulted in 46 criminal arrests, 24 indictments, 10 convictions, 149 additional seizures, 29 search warrants, and one administrative arrest.
- BEST JFK further capitalizes on its participation in the OCDETF Program by leading a Heroin Initiative, which targets parcels suspected of containing illicit narcotics smuggled through the voluminous e-commerce shipping routes. To date, ICE-HSI BEST JFK has seized 243 fentanyl-laden parcels weighing 85 lbs. that have resulted in 219 referrals for controlled deliveries leading to 11 criminal arrests.

Recognizing the need for greater action, ICE HSI, CBP, FDA, DEA, and USPIA are collaborating in the development of a more robust, nationwide effort to interdict fentanyl transiting through mail facilities. The expansion of BEST to additional mail facilities is expected to help disrupt the movement of illicit fentanyl through the mail by placing trained investigators at the facilities seeking to conduct long term, complex, criminal investigations with a high

probability for significant seizures and arrests. Additionally, the anticipated arrests and dismantling of distribution networks could potentially reduce overdose deaths in the United States.

We also recognize there is a second prong of the opioid threat that is also exploiting U.S. trade and travel: Mexican TCOs along the Southern Border. Mexican TCOs are a major source for the U.S. illicit drug market that includes marijuana, cocaine, methamphetamine, and heroin. More recently, fentanyl has entered the U.S. market in a variety of forms using both established smuggling routes and infrastructure, as well as through direct marketing to consumers. Mexican TCOs and other criminal groups have identified fentanyl as a mechanism to exploit the demand caused by opioid substance abuse in the United States by increasing the potency of their existing products and expanding their market to more American addicts. Mexican TCOs mix pure fentanyl with adulterants in clandestine labs in Mexico prior to smuggling them across the Southern Border. Materials in these seizures generally contain less pure fentanyl within larger weight shipments (10 percent purity). To combat this threat, HSI will look to maximize the presence of BESTs along the Southern Border to increase the investigative tempo through opioid initiatives and enforcement operations.

National Targeting Center – Investigations (NTC-I)

ICE closely coordinates with CBP's National Targeting Center. Our efforts with the NTC-Investigations (NTC-I) program leverages intelligence gathered during ICE-HSI investigations by using CBP holdings to target the flow of drugs into the United States. The NTC-I provides a platform to share information worldwide. We also have Special Agents assigned within the NTC Cargo Division. These Special Agents fuse case data with CBP targeting information to bolster investigations targeting illicit opioid smuggling and trafficking organizations.

NTC-I conducts analysis of materials seized by ICE-HSI during the course of an investigation, and by CBP at the ports of entry. The analysis is critical to identifying networks that transport heroin and illicit fentanyl-related substances into and throughout the United States. A key component of the post-seizure analysis is the financial investigation. The NTC-I focuses

on the financial element of the smuggling organization by exploiting information gathered from multiple financial databases.

The NTC-I works closely with CBP to target illicit shipments from abroad for interdiction at international mail and ECC facilities. CBP works to target parcels based on numerous characteristics and provides investigative information on past seizures and active smuggling networks to aid in the targeting effort. Partnering with ECCs has proven valuable in identifying additional data sets for targeting and exploitation.

The USPIS is a valued partner within the cargo targeting division at the NTC. The USPIS resources provide significant value to targeting efforts in preexisting investigations. The USPIS is able to leverage its agency-specific databases to provide information that was previously unavailable to ICE-HSI and CBP at the NTC. Fusing information from the USPIS databases with available CBP and ICE-HSI targeting, trade, and investigative data has been instrumental in identifying illicit opioid importation and distribution conspiracies throughout the Nation. To build on this success, ICE-HSI recently met with USPIS to discuss increasing its presence in BEST units and IMFs across the U.S. This expanded partnership will allow joint enforcement “blitzes” to function more efficiently, with the NTC serving as the central hub for all targeting data across the three agencies.

For example, in early March 2017, ICE-HSI Houston, NTC-I, and USPIS developed an initial target list of parcels suspected of containing illicit substances destined for U.S.-based recipients. The initial target list was shared with other cooperating agencies for potential interception and execution of controlled deliveries. These operations resulted in the seizure of 72 parcels containing some form of illicit substances, including fentanyl. Based on the contents of the 72 parcels seized, a common link in the flow of these illicit drugs to the United States was identified. The ICE-HSI Attaché Hong Kong requested assistance from the Hong Kong Customs & Excise Department (HKCE). HKCE began a four-day operation during March 2017 targeting and intercepting parcels from a Chinese freight forwarding company. During their operation, an additional 130 parcels were seized within Hong Kong mail facilities. All of these 130 parcels were identified as containing some form of illicit substances, including fentanyl, and were subsequently destroyed before reaching their intended recipients.

Cyber Crimes Division

The ICE-HSI Cyber Crimes Division provides support and assistance to field cyber investigations targeting dark net illicit marketplaces where fentanyl and chemical precursors proliferate. As criminal activity, and especially the trade of illicit opioids, continues to expand in the online world, ICE-HSI faces growing demand for cyber investigative assistance. For example, in 2014, ICE-HSI conducted only 37 cybercrime investigations (not including child exploitation violations). By 2015, that number approached 100 such investigations. Today, ICE-HSI has over 600 open cybercrime investigations over 100 of which specifically target dark net illicit markets – most involving narcotics smuggling.

In the past year alone, the Cyber Division has observed a 500 percent increase in requests for field support. Recognizing the need to target online fentanyl trafficking proactively, the ICE-HSI Cyber Division is identifying ongoing investigations and facilitating the coordination of online undercover operations to counter dark net illicit marketplaces. Additionally, the Cyber Division is assisting online undercover operations and collaborating with the interagency to develop strategies for combatting online sources of opioids.

ICE-HSI is a founding member and full participant in the International Organized Crime Intelligence and Operations Center (IOC-2). IOC-2 serves as a deconfliction, coordination, and lead development entity that supports non-drug-centric investigations. To fully exploit the gamut of illicit activity occurring in the dark net, IOC-2 has served as the primary deconfliction mechanisms through which dark net marketplace targets are deconflicted to identify investigative overlap. This deconfliction includes specific focus on fentanyl and opioid vendors operating on these marketplaces. ICE-HSI Cyber Division has partnered with IOC-2 to maximize the U.S. government's counter fentanyl efforts.

Special Operations Division (SOD)

Through its specialized tools and methods, DEA's Special Operations Division (SOD) fully exploits federal law enforcement's investigative authorities, and is actively supporting multi-jurisdictional, multi-agency, and multi-national criminal investigations by working jointly with federal, state, and local agencies. An SOD-led Heroin and Fentanyl Task Force (HFTF), supported by ICE-HSI, CBP, DEA, USPIS, and several other federal agencies utilizes electronic

communications to proactively identify, disrupt, and dismantle the production, transportation, and financial networks behind the heroin and illicit fentanyl distribution organizations that impact the United States. The HFTF focuses on the collaborative authorities and efforts of each invested agency's resources, in order to better share and de-conflict information. The HFTF works together to target international and domestic organizations by proactively working with field offices. The task force also assists in coordinating and linking investigations from street-level dealers to the international supply sources.

ICE-HSI supports field investigations related to heroin and illicit fentanyl and the overdoses that occur as a result of use. ICE-HSI and the HFTF are currently coordinating with the DOJ's OCDETF Program, its Fusion Center and the White House Office of National Drug Control Policy - funded High Intensity Drug Trafficking Areas (HIDTA) taskforces to exploit communication data and social media information that are associated with reports of overdoses within a geographical area. This is in direct support of the OCDETF National Heroin Strategy. Coordination with OCDETF and HIDTA has proven helpful in multi-jurisdictional investigations and in their successful prosecutions.

Additionally, SOD initiated an operation in August 2018, which is an entire U.S. Government enforcement strategy focused on all illegal acts committed by Chinese TCOs, to include trafficking in fentanyl. The purpose of this one-year operation is to disrupt and dismantle Chinese TCOs, including through work with the Government of China. In furtherance of this operation, SOD representatives from HSI travelled to Beijing and met with the Chinese Narcotics Control Bureau (NCB) under the Ministry of Public Security and offered them assistance in targeting fentanyl traffickers residing in China. As a result of these meetings, both sides agreed that through the sharing of information, we can create a long-term, sustainable working relationship with Chinese authorities. The goal is, and will continue to be, to conduct concurrent investigations, whereby perpetrators (individuals and corporations) are identified in both countries, and are indicted, arrested, and altogether dismantled in both countries.

Financial Division

Identifying, analyzing, and investigating the payment systems that facilitate the purchase and smuggling of fentanyl are critical to the disruption and dismantlement of networks that smuggle fentanyl and other illicit opioids into the United States. We conduct proactive investigations that focus on the two key payment systems which support illicit procurement of opioids: money service businesses (MSBs) and cryptocurrencies. Generally, illicit opioids that are purchased on the “indexed” internet are paid for through licensed mainstream MSBs. On dark net marketplaces and other “unindexed” websites, purchases are often paid for with cryptocurrencies such as Bitcoin or Monero, among many others.

Despite the pseudo-anonymity and ease of transfer exploited by the users of Bitcoin and other virtual currencies, criminals still need to convert their cash into virtual currency or their virtual currency into cash. Whenever monetary exchanges are made, a vulnerability is created. This is the time when criminals are most susceptible to identification by law enforcement means and methods. Utilizing traditional investigative methods such as surveillance, undercover operations, and confidential informants, coupled with financial and block-chain analysis, ICE-HSI is able to disrupt the criminals and dismantle the TCOs, as well as the cryptocurrency exchangers who typically launder proceeds for criminal networks engaged in or supporting dark net marketplaces.

Legitimate users of virtual currencies are more than willing to conduct business with a legitimate virtual currency exchange. Legitimate exchanges are registered with the U.S. Department of the Treasury’s Financial Crimes Enforcement Network (FinCEN). FinCEN issued guidance in 2013 identifying persons or companies involved in the exchange of virtual currency as Money Service Businesses (MSB) and required exchanges to follow the same regulatory and reporting protocols as traditional MSBs. The protocols include anti-money laundering compliance regulations and *Know Your Customer* (KYC) procedures and registration protocols. The KYC procedures are implemented to record personal identifying information from customers. Legitimate users are more than willing to provide personal identifying

information and traditional financial institution account numbers in exchange for security, the lowest fees, and the ease of processing transactions.

Those who use virtual currency for illegal purposes, however, generally stay away from registered exchanges in an attempt to conceal their own identities. Instead, these criminals look to illicit or unregistered exchanges that do not require or ask for personally identifiable information. These illicit exchanges often take the form of a direct Peer-to-Peer (P2P) exchanger. P2P exchangers post advertisements on websites such as localbitcoins.com or even Craigslist stating the price at which they are willing to either buy or sell virtual currency. Although some P2P exchangers do register and follow compliance laws, most do not. Rather, these illicit P2P exchangers position themselves as the money launderers of the virtual currency world. One type of P2P exchanger illegally generates revenue by charging a premium for allowing their customers to remain anonymous. They will sell virtual currency above market value and buy below market value to or from those customers who want to remain anonymous.

A second type of illegal P2P practice involves a person or entity operating as a vendor on dark net marketplaces. In this variation, a P2P exchanger converts virtual currency received as payment to the cash they sought. These P2P exchangers will often sell their virtual currency below market value when they are rich in virtual currency, but poor in traditional currency. Targeting these illicit P2P exchangers helps to pull back the veil of pseudo-anonymity provided by virtual currencies. Through interviews and suspect cooperation, along with forensic analysis of computers, mobile phones, and other seized electronics, as well as the use of advanced block-chain tracing tools, ICE-HSI can identify other criminals using virtual currency to fund and further their illicit activities.

To continue long term strategies to dismantle TCOs, we train investigators from national and international agencies in cryptocurrency investigations in an effort to deter organizations from laundering proceeds or using cryptocurrencies to fund the purchase of fentanyl/opioids or other narcotics. Also, ICE-HSI created the Money Service Business Initiative to enable the application of advanced data analytics across large amounts of MSB data in order to isolate criminal networks, highlight suspicious transactions indicative of illicit activity, and provide

predictive intelligence. The power of this type of advanced analytics truly shines when MSB data is integrated with additional government data holdings, open source and social media information, and communication records such as phone records, Internet Protocol (IP) address activity records, email search warrants, and Title III wire intercepts.

Successful Collaboration

There is no single entity or solution that can stop the flow of dangerous illicit drugs like fentanyl into the U.S. or keep them from harming the American public. Tackling this complex threat requires a united, comprehensive strategy and an aggressive approach be taken by multiple entities across all levels of government. We have witnessed many recent successful investigations based on these principles, resulting in numerous arrests and seizures from North Dakota, to Cleveland, to Philadelphia, to New York, and elsewhere. We will continue to work with our federal, state, and local partners to improve the efficiency of information sharing and operational coordination to address the challenges and threats posed by illicit narcotic smuggling in the international mail environment.

However, this collaboration does not end with our domestic partners; to fully address this threat, it will require the assistance of our international partners as well. ICE-HSI utilizes its attaché offices throughout the world, which are operationally integrated and work side-by-side with host country governments. These relationships and the sharing of information with international partners continue to grow. To that end, I wanted to share a recent successful investigation that highlights the collaboration just mentioned.

In August 2017, an investigation into fentanyl smuggling from China was initiated by our Attaché office in Guangzhou, China and ICE-HSI New Orleans, Louisiana. We worked, and continue to work, closely with the Chinese Narcotics Control Bureau (NCB) to target the DIANA Fentanyl TCO. The information shared by ICE-HSI prompted Chinese authorities to conduct enforcement actions across multiple Chinese provinces. Moreover, at a press conference in Beijing in December 2017, NCB announced changes to the narcotics control list. During his speech, NCB Deputy Director General Deng Ming referenced the ICE-HSI/NCB investigation of the DIANA Fentanyl TCO as a contributor to these expanded control measures.

Just last month, NCB investigators travelled to New Orleans to discuss and coordinate the next steps in the ongoing investigation, which is focusing on numerous additional targets identified across the United States. This represents the first case in which U.S. and Chinese law enforcement have cooperated in this way. Additionally, DOJ legal representatives in Beijing report that the Chinese Narcotics Control Commission considers this a “signature case” that significantly helped escalate the Chinese Government’s understanding of the fentanyl export problem.

CONCLUSION

Thank you again for the opportunity to appear before you today and for your continued support of ICE and its law enforcement mission. ICE is committed to battling the U.S. opioid and illicit fentanyl crisis through the various efforts I have discussed today. I would like to reiterate that this problem is an epidemic that demands urgent and immediate action across various law enforcement agencies and in conjunction with experts in the scientific, medical, and public health communities. I appreciate your interest in this important issue and look forward to your questions.