

**STATEMENT OF
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**BEFORE THE
SENATE CAUCUS ON INTERNATIONAL NARCOTICS CONTROL
UNITED STATES SENATE**

**AT A HEARING ENTITLED
"THE 150 BILLION DRUG MARKET: A DIVE INTO THE ECONOMICS
OF CARTEL"**

**PRESENTED
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Chairman Whitehouse, Co-Chairman Grassley, and Members of the Committee, thank you for this opportunity to testify on behalf of the National HIDTA Directors' Association (NHDA). Today's hearing is very timely and relevant to the 33 High Intensity Drug Trafficking Areas across the country, along with the state, local, tribal and federal law enforcement agencies that participate in HIDTA task forces. The HIDTA Program was created by Congress in 1991 and is a grant Program designed and funded under the Office of National Drug Control Policy (ONDCP). The mission of the HIDTA Program is to disrupt and dismantle large scale drug organizations operating in the US and abroad. The investigations conducted by the HIDTA drug Task Forces across the country target all aspects of the cartel operations, both domestic and foreign.

The HIDTA Program supports coordinated law enforcement strategies in targeting the cartels that are causing irreparable damage to the communities of our country. Coordinated multiagency, multi-jurisdictional law enforcement strategies generates an exponential increase in investigative results, maximizing the use of available resources to prosecute members of these drug organizations, while reducing the supply of illegal drugs in designated areas across the United States. HIDTA does not fund law enforcement agencies, but rather invests in strategies developed equally in federal, state, local and tribal partnerships. The strength of the HIDTA Program is found in its innovation, expanded scope of mission and diversity. It cannot be emphasized enough that the cornerstone of the Program is in its demonstrated ability to bring people and agencies together to work towards the common goal of dismantling the cartels.

Techniques and Methodologies Used by Drug Law Enforcement to Investigate Drug Cartel

HIDTAs and their associated law enforcement partners across the country use a broad array of techniques and methodologies to investigate drug cartel and their money laundering operations. These techniques and methodologies fall into several general categories; Investigative Methods, Intelligence, and Technology.

Investigative Methods include what might be considered “old school” police work. Highly trained investigators work alongside each other to use all available tools to identify and track drug leads. These tools include surveillance of members of the drug organizations, identification of transportation and distribution methods used by an organization, strategic, intelligence-driven highway interdiction to identify the conveyances used to transport their drug and currency shipments across the country, and in the development of cooperating individuals. This often involves interactions with identified lower-level members of these organizations. These human interactions often lead to information that allows investigators to “work up the chain of command” to higher level cartel members. Lower-level drug traffickers are more likely to work with investigators, especially when they are facing potential jail time for their involvement. These confidential informants provide investigators with a significant advantage, since these informants already have a trusted relationship and role/function to fulfill for the cartel members within their chain of command. These efforts are enhanced and multiplied by the collocated, comingled status of state, local and federal personnel working under the HIDTA umbrella.

Intelligence Gathering includes the use of highly trained intelligence analysts and specialized software to identify and target cartel members. Turning data into viable, useable information is what these trained specialists do best. Their tactics include deep-diving into law enforcement and public databases to construct links between known and unknown cartel members and money conveyance actors, determining modes of transportation, and identifying trafficking patterns. Intelligence and information sharing is a critical component of the overall HIDTA strategy in targeting the cartel and in reducing the supply of drugs in our communities. The HIDTA Program mandates and establishes intelligence/investigative support centers in strategically placed areas across the country, specifically to create and maintain a communication infrastructure that can facilitate information-sharing among federal, state, local and tribal law enforcement agencies. These HIDTA intelligence support centers across the country follow the same model as the HIDTA drug task forces by commingling analysts from all regional state, local, federal and tribal law enforcement agencies in one place, working toward the common goal of dismantling drug trafficking and money laundering organizations. These centers contribute significant analytical resources targeting the on-going drug investigations not only in the HIDTA drug task forces, but also to all law enforcement agencies in their regions for the purpose of deconfliction and the in the sharing of information and resources.

HIDTAs across the country work diligently to utilize all ***technological resources*** available, to include, Title 3 wire intercepts targeting communication devices used by the cartel, monitoring of social media platforms, the use of specialized tools such as surveillance equipment, GPS trackers, body cameras, microphones, X-ray scanners (to identify drugs and currency secreted in hidden compartments), license plate reader (LPR) technology and others. In an age of rapidly developing technological changes, law enforcement is doing all it can to stay up-to-date with these evolving technological developments, but is increasingly finds itself “going dark” while applying traditional targeting of cartel communications that were so successful in the past. Today, drug law enforcement is having to focus more and more on the identification of “vulnerability points” in the cartel’ distribution and organizational structure to successfully gather critical evidence needed for the indictment and prosecution of higher-level members of these illicit organizations. To enhance these efforts, the HIDTA Program is also leveraging academics to help law enforcement better understand how to identify and target the vulnerabilities of criminal organizations.

Some Members of this committee have participated in previous briefings on law enforcement's critical issues and great challenges in obtaining vital and critical evidence from the communication platforms used by the cartel and their networks in communities throughout the U.S. The term "Going dark" has been identified as the problem and "Lawful Access" has been identified by all as the best solution for law enforcement. Our inability to access communication platforms, whether it be cellular telephones, social media platforms or special communication apps like WHATSUP, TREMA and SIGNAL are increasingly making law enforcement less efficient in prosecuting upper echelon members of the cartel, their network members operating in the U.S., and persons willing and knowingly distributing lethal doses of fentanyl in the U.S. (resulting in overdose deaths). Anything that this committee can do to make a positive impact on this issue would be greatly appreciated, and in turn would make our communities much safer than they are today.

Targeting the Money Laundering Operations of Cartel

17 of the 33 HIDTAs across the country have dedicated money laundering Task Force groups specifically targeting cartel money laundering operations. Many of the HIDTAs seated in major metropolitan areas have multiple money laundering Task Forces within their specific HIDTAs. All of the HIDTA Task Forces across the country, along with our law enforcement partners, target points of vulnerabilities in the distribution process when drug shipments are being repatriated back into U.S. currency. In 2020, the HIDTAs across the country seized \$827.7 million in cash from drug organizations, while seizing an additional \$176.5 million in other tangible property and assets.

The targeting of money laundering operations of the cartel is a complex and ever-evolving investigational opportunity for drug law enforcement across the country. Drug cartels are always seeking new opportunities and techniques to successfully move their drug proceeds from the destination countries back into the cartel's source country's control. The money laundering techniques used by the cartels are always changing. A good example of this was in 2010 when the Government of Mexico tightened restrictions on their internal banking laws, and the immediate reaction from the Mexico-based cartels was to diminish the overall amounts of bulk currency being transported back into Mexico, with a new focus of investing in U.S. commodities and real estate assets. That trend is no longer being observed, as the cartels have been able to circumvent the Mexico banking laws cited above. Over the past year, HIDTA has observed an increase in the amount of bulk currency cash being transported back into Mexico by the cartels. HIDTAs and our law enforcement partners have received intelligence about cartel drug proceeds being converted to cryptocurrency, but the recent volatility of cryptocurrency may have caused the cartels to refocus their attention away from this tactic as a reliable and stable tool for their money laundering activities. To give you a glimpse of the magnitude of U.S. currency being generated for the cartels, two of the most predominant Mexico based cartels are the Sinaloa and the Jalisco New Generation (CJNG) Cartels. DEA and intelligence sources indicate that the Sinaloa Cartel earns up to an estimated \$1 billion, and that the CJNG Cartel earns hundreds of millions of U.S. dollars annually.

The cartels money laundering operations are targeted by U.S. drug law enforcement in the traditional methods of inserting undercover operatives, posing as criminal enterprise "money launderers" to meet with cartel cell heads in various parts of the country, pick up large amounts of U.S. currency and then "launder" the currency through the banking system (or other methods dictated through undercover negotiations) back to financial accounts controlled by the cartels. At times, the undercover operatives are

also requested to make the drug-related proceeds of the cartels appear to be legitimized through the purchase of U.S. Assets, real estate. Law enforcement undercover operations will conduct these services for the cartels for a service fee that is determined by a negotiated percentage of the amount of currency being laundered. At times, the decision will be made in these currency pickups to successfully “launder” these funds and allow them to be received by cartel members, especially when the cartel is providing the undercover operation with smaller “test” run amount of U.S. currency to see if the operation is affiliated with law enforcement entities. When these funds are actually laundered by the undercover operation, the amount of valuable organizational intelligence received is of great benefit to law enforcement. The intelligence gleaned from these operations will greatly assist law enforcement in the seizure of additional drug currency shipments being laundered by the cartel in other money laundering activities, not necessarily involving the undercover operation.

HIDTA and its law enforcement partners have observed a new alarming trend for money laundering activities in the cartel’s newly formed partnerships with ethnic Chinese money laundering organizations (MLOs). These cartels have increasingly collaborated with Chinese elements in obtaining precursor chemicals from China to manufacture fentanyl in labs within Mexico, and the money laundering capabilities of moving the Cartel drug proceeds into the China based banking system have proven a natural fit. Moving the money in this direction also functions for other purposes such as in the purchase of precursor chemicals and China-made trade-based consumer goods and thereby to launder and legitimize cartel funds through the China banking system. U.S. drug law enforcement has also observed instances of Chinese nationals meeting with cartel members in the U.S. to pick up large amounts of drug currency to be laundered. U.S law enforcement has also experienced an increase in Asian males transporting large amounts of U.S. currency in tractor trailers to areas in northern California and other areas along the Southwest Border. One month ago, a tractor trailer left New York city with 4 Asian males in the truck (unusual for so many occupants in eighteen-wheeler). The truck was stopped in Mississippi and \$1.4 million dollars was found hidden in the truck. Also of interest is that intelligence has indicated that these U.S. Chinese operatives are picking up large quantities of U.S. dollars to be laundered for the cartels and these funds are being laundered in the China banking system with no additional service fees added to the amount of the drug currency received and being laundered.

The HIDTA Domestic Highway Enforcement (DHE) Program

Cartels are constantly moving shipments into and across the U.S. using various forms of distribution techniques, to include tractor trailers, vehicle conveyances, buses, trains, ships and shipping platforms to include the U.S. Postal service. The Domestic Highway Enforcement (DHE) information sharing platform is a national HIDTA initiative that provides unprecedented highway drug trafficking awareness and collaboration among federal, state, local and tribal law enforcement. The initiative has led to the significant disruption of dangerous drugs, gun trafficking, illicit proceeds, human trafficking, and other substantial criminal activities on and along U.S. transportation corridors. DHE leverages law enforcement information on drug trafficking with other smuggling modalities - air, maritime, rail, bus, and parcel - along with traffic safety resources to deny drug traffickers and other criminals the use of United States highways and other arterial routes.

The quantity of dangerous drugs and illicit currency intercepted along U.S. highways is staggering. Last year alone, thousands of pounds of fentanyl, cocaine, and methamphetamine were seized during traffic

stops on or near interstate highways. In the last 2 years there were over 25 separate traffic stop incidents where over \$1 million in bulk cash was recovered leading to HIDTA supported criminal investigations. The HIDTA DHE program incorporates an information sharing model for the traffic stop encounters that encourages the gathering, analysis, investigation, and sharing of criminal intelligence and threats to public safety.

DHE program coordinators, working with DHE HIDTA supported officers and analysts nationwide, observed a number of drug mule transportation tactic changes during the past couple of years. A drug trafficking organization will typically pay a driver between \$2000 and \$10,000 to transport bulk quantities of dangerous drugs across U.S highways. Drug mules have displayed increasing levels of aggressive driving behavior. Officers regularly encounter drug mules travelling at high speeds and many carry personal-use marijuana or methamphetamine, and are possibly impaired, while driving long distances. During a single week last year, 3 drug trafficking investigations began following car crashes along Interstate 80 in Wyoming, Utah and Iowa. The number of firearms encountered during traffic stops with bulk narcotics has also increased. Although, many drug traffickers use sophisticated concealment methods in passenger vehicles and trucks, during the past year officers also encountered increased seizures with limited or no concealment. As the HIDTA DHE program continues to grow and build partnerships across the nation, program leadership is actively engaging in activities to ensure a professional traffic safety foundation to stakeholder strategies, and most importantly in disrupting cartel activities in moving drug and drug related U.S. currency on the roads in the U.S.

New Emerging drug trafficking and distribution trends observed by HIDTA

The most significant observations from the HIDTAs and our law enforcement partners have been in the recent change of the rise and growth of the two most predominant Mexico based drug cartel, the Sinaloa and the Jalisco New Generation (CJNG). I believe their growth and expansion can be attributed to these two cartels rising to become the largest producers and distributors of methamphetamine and fentanyl in Mexico. We have also received intelligence indicating these cartels are also producing Phencyclidine (PCP) in their labs to accommodate growing U.S. demands for the drug, especially among teens and gang members. The largest concentration of methamphetamine and fentanyl labs in Mexico are in Culiacan and Tamazula. These two cartels have strategically increased their relationships with China and India based precursor chemical brokers and malicious actors associated with China and India based chemical companies. U.S. law enforcement based in Mexico also reports Chinese nationals in Culiacan, Mexico working alongside cartel members assisting them in their illegitimate lab production sites.

Another alarming trend that law enforcement has not previously experienced before is in the observation of the cartels using social media apps to recruit persons to assist them in their day-to-day operations in the U.S. This is being observed at all stages of the cartel transportation and distribution activities. Recently in an interview, the DEA Administrator Anne Milgram said: “The cartels are harnessing the perfect drug trafficking tool: social media applications that are available on every smartphone. They are using these platforms to flood our country with fentanyl. The ease with which drug dealers can operate on social media and other popular smartphone apps is fueling our Nation’s unprecedented overdose epidemic”.

U.S. drug law enforcement is seeing less and less marijuana and even declining heroin seizures along the Southwest Border (SWB). This is directly attributed to the new focus and U.S demand for synthetic

fentanyl production. The cartels have realized the incredible profit margins and steady availability for fentanyl production for a drug that is not subject to weather, eradication efforts or geographical restrictions. U.S. law enforcement is experiencing unprecedented seizure rates of fentanyl powder and fake pills containing fentanyl in the U.S. that are increasing every year since 2018. This is especially alarming considering the increases in overdoses and overdose deaths due to fentanyl being experienced by emergency rooms across the country. To provide an understanding of the incredible profit margins for the cartels in their fentanyl production, imagine one kilogram of fentanyl powder (2.2 pounds) equals one million milligrams of fentanyl. A lethal dose of fentanyl equals 2 milligrams of fentanyl. The counterfeit pills being seized by law enforcement containing fentanyl average between 1 and 2 milligrams of fentanyl per pill. Pills seized by law enforcement containing more than 2 milligrams of fentanyl represent a probable overdose death. Additionally, when you consider that most of these counterfeit pills are being produced in rogue, pill press-operations with no medical standards for dosages, the likelihood of overdosing is increased exponentially. One kilogram of fentanyl could produce one million counterfeit pills with one milligram, 750,000 counterfeit pills containing 1.5 milligrams of fentanyl, or 500,000 pills containing 2 milligrams (lethal dose). Currently in Houston, Texas, a kilogram of fentanyl can be purchased for an average price of \$25,000 to \$30,000. This same kilogram of fentanyl in Culiacan could be purchased for an average price of \$13,500. Currently, the price for a fentanyl pill in Houston ranges from \$6.00 to \$65.00. Thus, an illicit investment of \$30,000 or less could result in a return of \$6,000,000 to \$32,500,000.

U.S. law enforcement is also seeing trends of fentanyl mixed with methamphetamine and cocaine as well. Methamphetamine and Cocaine seizures being seized by U.S. law enforcement are also increasing at alarming rates. Seizures of Methamphetamine and cocaine are also at all time highs by U.S. law enforcement. According to U.S. government estimates, Cocaine production in Colombia reached its highest levels in 2020. Cocaine seizures remain high in the coastal, northern border and SWB areas of the U.S. Customs and Border Protection (CBP) alone, who monitors our ports of entry into the U.S. reports 97,638 kilos of cocaine seized in FY 2021 compared to 58,000 in 2020.

Seizure levels of marijuana by U.S. law enforcement are decreasing rapidly each year. A cautionary note regarding seizures of marijuana originating from Mexico. The decreased seizure levels of bulk marijuana from Mexico should not be viewed as a lack of effort on the part of cartels to traffic the drug nor should we be swift to claim a victory in our efforts to stem the trafficking of marijuana in the United States. Sadly, marijuana is alive and thriving in America. Drug Trafficking Organizations, with origins in both domestic or international roots, now can operate in plain sight under the guise of a legalized market. These operations can include internet-based sales, establishing store front point of sales using a “straw owner” as a front person and even in the cultivation of large-scale marijuana plots on our public lands and national forest areas. Many of which have direct ties to organizations based in Mexico. The cartels are still involved in marijuana distribution in America, but now more under the guise of selling and distribution of both legal and illegal marijuana from legalized states.

Essentially, the HIDTA Program is successful because of the collaboration, resource allocation and partnerships generated by having federal, state, local and tribal law enforcement working together in drug law enforcement collaborations, focused solely on the dismantlement of the cartels wreaking havoc on our communities. Not previously mentioned in this statement is the collaboration between HIDTA and those in the drug treatment and prevention side, which has never been more aligned in mission and

coordination. In my many years of law enforcement experience, one thing is clearer to me than ever before, we cannot arrest our way out this problem, and the partnerships and innovative approaches between law enforcement and community leaders have never been so important. I am proud of how law enforcement has responded to the new techniques and challenges used by the cartels, but our ability to efficiently target cartel members and their surrogates will be the defining factor in reducing the violence and supply of drugs endangering the communities of America.

Thank you for allowing me this opportunity to testify before you today. I look forward to answering any questions.

Addenda: F. Mike McDaniel Bio
 Map of 33 HIDTAs in the US
 Year to Year Drug Seizure Charts along the SWB