

**OPENING STATEMENT OF SENATOR DIANNE FEINSTEIN
SENATE CAUCUS ON INTERNATIONAL NARCOTICS CONTROL
“MONEY LAUNDERING AND BULK CASH SMUGGLING
ACROSS THE SOUTHWEST BORDER”**

WEDNESDAY, MARCH 9, 2011

We are here today because Mexico’s brutal drug trafficking organizations are fueled by money that illegally transits from the United States to Mexico, much of it across our Southwest border.

Violence in Mexico has reached unprecedented levels. Since the start of Mexican President Felipe Calderón’s administration in December 2006, over 34,000 people have died in drug-related killings in Mexico. The killings reached their highest level in 2010, jumping by almost 60 percent to 15,273 deaths from 9,616 the previous year.

I believe that the United States has a responsibility to curb the illegal flow of money into Mexico. Without reducing this illicit transit, it will be difficult to make significant progress in dismantling Mexican drug trafficking organizations. My hope is that today’s hearing will push us all to do a better job in cutting off money destined for Mexico’s violent drug traffickers.

According to the National Drug Intelligence Center, Mexican and Colombian drug trafficking organizations “annually generate, remove and launder between \$18 billion and \$39 billion in wholesale distribution proceeds,” much of it across the Southwest border.

Millions of dollars are transported each week from U.S. drug markets to Mexican traffickers. Most of the money comes from drug sales in large metropolitan areas, mainly Atlanta, Chicago, Los Angeles and New York City. The money is then often smuggled across the Southwest border, typically in plastic-wrapped bundles of \$20 or \$100 U.S. bank notes. The money is transported by various methods, including being stashed in tires, engines and hidden compartments of cars and trucks.

U.S. law enforcement reports finding intricate hidden compartments in vehicles which contain bulk cash as well as illegally obtained firearms and drugs. While California, Florida, Michigan, Georgia and Illinois have laws banning these concealed compartments, there is no national law. I hope today’s hearing will allow us to discuss potential legislative solutions.

In March 2009, Secretary of Homeland Security Janet Napolitano called on Customs and Border Protection (CBP) to inspect travelers leaving the United States for Mexico. This effort expanded CBP’s primary mission of inspecting travelers who try to enter the United States. Carrying out these outbound operations is a crucial first step in curbing the flow of illicit cash and firearms from the U.S. to Mexico.

Between March 2009 and February 22, 2011, CBP seized approximately \$67 million in illicit bulk cash leaving the United States at land ports of entry. 97 percent of these seizures occurred at the Southwest border. While our outbound enforcement efforts certainly are commendable, \$67 million represents an incredibly small percentage of the estimated \$18 to \$39 billion reaching Mexican drug traffickers each year.

Of course, bulk cash smuggling is just one way of transporting money from the U.S. to Mexico. Criminals increasingly launder money from the United States to Mexico through various electronic means. While continuing to crack down on bulk cash smuggling, the United States **must** stay ahead of drug traffickers by going after these newer methods of money laundering.

The use of stored value cards – pre-paid gift or credit cards – is an increasingly popular means of money laundering. Remarkably, stored value is not subject to **any** cross-border reporting requirements. This means that an individual crossing from the United States into Mexico with thousands of dollars on pre-paid cards is not required to declare these cards at the border.

I believe that the Treasury Department has not adequately addressed stored value. The Credit CARD Act of 2009 requires the Secretary of the Treasury, in consultation with the Secretary of Homeland Security, to issue regulations regarding the sale, issuance, redemption or international transport of stored value. A Notice of Proposed Rulemaking was issued in June 2010, but did not include any proposed rules on the international transport of stored value.

I was pleased that the Treasury Department proposed a rule to make the purchase of stored value subject to Suspicious Activity Reports (SARs). This means, for example, that a Suspicious Activity Report would have to be filed if an individual purchased \$2,000 on pre-paid cards at one single store and the store determined the transaction to be suspicious. Unfortunately, this rule has not yet been finalized even though the issuance of a final rule on this matter was required by February 2010. A final rule on this matter must quickly be finalized.

We simply cannot afford to lag behind drug trafficking organizations as they develop new ways to transport illegal proceeds from the United States to Mexico.

I am pleased by efforts made by Mexican President Felipe Calderón to curb bulk cash smuggling and money laundering. In 2010, President Calderón enacted into law legislation restricting the purchase of real estate with cash. Also under the new law, Mexicans are unable to purchase vehicles, boats, airplanes and luxury goods with a value greater than 100,000 pesos or \$7,700 U.S. dollars. Those who violate these new regulations can be imprisoned for up to 15 years.

Finally, on both sides of the border, I believe that our efforts to understand drug trafficking organization finances are severely lacking.

In collaboration with the Calderón administration, the Obama administration should enhance authorities' and businesses' focus on understanding, mapping and tracking drug trafficking organizations' financial structures and money transfers. This should include specific tasking from law enforcement agencies and other relevant government and private sector entities to make financial information regarding drug trafficking organizations a top priority.

In the United States, we constantly ask ourselves how we can best support the Mexican government in weakening drug trafficking organizations and reducing violence in Mexico. We dedicate a great deal of time and effort going after illegal drugs and pursuing criminals. We need to equally pursue the money that drives the problem.

I look forward to hearing from the witnesses today about the most effective ways to starve Mexican drug trafficking organizations of the money that fuels them.

I now turn to my Co-Chairman, Senator Grassley, for his opening statement.