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1 PRECURSOR CHEMICALS USED TO MANUFACTURE ILLICIT SYNTHETIC
2 DRUGS

3
4 Tuesday, October 24, 2023

5
6 U.S. Senate
7 Senate Caucus on International Narcotics Control
8 Washington, D.C.

9
10 The committee met, pursuant to notice, at 3:01 p.m., in
11 Room 608, Dirksen Senate Office Building, Hon. Sheldon
12 Whitehouse, chairman of the committee, presiding.

13 Present: Senators Whitehouse [presiding], Hassan,
14 Lujan, and Grassley.

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1 OPENING STATEMENT OF SENATOR WHITEHOUSE

2 The Chairman. Thank you, everyone. This hearing of
3 the Senate Caucus on International Narcotics Control will
4 come to order. I am delighted to have this panel of
5 witnesses here from various sectors of the Federal
6 Government to look at the precursor pipeline.

7 Precursor chemicals are building blocks used to
8 manufacture fentanyl and other synthetic drugs. They are
9 difficult to regulate because they are often perfectly legal
10 for certain uses. Chinese chemical suppliers and Mexican
11 drug cartels exploit the situation.

12 Rather than supplying, for instance, fentanyl directly
13 to the U.S. as they once did, Chinese chemical companies now
14 supply the precursor chemicals to Mexican cartels and
15 transnational criminal organizations, specifically Jalisco
16 New Generation and Sinaloa. The cartels then use their own
17 chemists to manufacture the fentanyl to distribute to
18 victims in the United States.

19 The motive, of course, is always money. The authors of
20 the recent Financial Action Task Force report titled, Money
21 Laundering from Fentanyl and Synthetic Opioids, put it
22 succinctly, "taking the profits out of synthetic opioid
23 trafficking is one of the most effective ways to address a
24 growing transnational crime and public health emergency."

25 That is why I prioritized attacking the financial

1 networks of the criminal cartels. I am pleased by the State
2 Department's announcement that it will appoint a synthetic
3 drugs envoy to tackle the synthetic drugs and precursor
4 chemical markets.

5 But as Co-Chairman Grassley and I have warned in this
6 letter, which without objection, I will put into the record
7 to Secretary Blinken, "if this envoy is to be effective, he
8 or she must target the financial networks of these illicit
9 conglomerates."

10 [The information referred to follows.]

11 [COMMITTEE INSERT]

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1 The Chairman. Currently, cartels and other actors
2 easily launder funds into, through, and out of the United
3 States. Without coordination, Federal agencies won't have a
4 true understanding of the magnitude of the money laundering
5 problem in the United States, or the ability to gauge
6 whether our countermeasures against the cartels are
7 effective.

8 Senator Grassley requested to hold this hearing and for
9 good reason. It is past time we recognize that only through
10 bipartisan intergovernmental cooperation can we sever the
11 financial arteries that empower cartels and finance the
12 precursor chemicals' trade.

13 That is why I introduced an amendment to the National
14 Defense Authorization Act to establish a cross-border
15 financial crime center that would operationalize FATF
16 recommendations.

17 It would coordinate across all Federal agencies,
18 investigations, and information sharing related to financial
19 crimes with a nexus to the U.S. border, ensure uniform
20 training is provided, the United States, and as appropriate,
21 foreign law enforcement agencies, build the capacity of
22 foreign law enforcement and private sector partners to
23 combat money laundering, establish domestic public, private
24 partnerships to help real time sharing of money laundering
25 trends and techniques, and strengthen international

1 information sharing agreements, including import, export
2 trade data.

3 I am pleased that Homeland Security investigations
4 included this center as part of its strategy for combating
5 illicit opioids. Let's borrow from playbooks that have
6 already achieved success. In a single day, the U.S.
7 sanctioned more than 150 entities aiding Russia in its
8 unprovoked war against Ukraine.

9 Treasury briefed my staff that between January and May
10 of 2023, only 87 targets associated with the illicit
11 fentanyl trade were sanctioned. Sanctions hit the cartels
12 in their funding and restrict their access to the United
13 States.

14 Let's apply the sanctions playbook to the U.S. overdose
15 crisis, which caused 110,000 deaths, including 434 Rhode
16 Islanders in 2022. Chinese money laundering organizations
17 use mirror payment schemes to avoid cross-border
18 transactions and launder cartel cash right here in the
19 United States.

20 We need to make the geographic targeting orders
21 permanent, extend anti-money laundering safeguards to
22 investment advisers, and push towards a complete and timely
23 implementation of the Corporate Transparency Act. And by
24 the way, much appreciation to Senator Grassley for his
25 terrific cooperation in getting that Corporate Transparency

1 Act passed into law.

2 Each day that we delay, fentanyl dealers launder ill-
3 gotten gains through the U.S. financial system. Pushing
4 countries like China and Mexico to take swift action is also
5 key. That is why co-chair Grassley and I have pressed
6 China, most recently in May, to increase information sharing
7 on precursor chemicals, strengthen the enforcement of
8 labeling laws, and implement and enforce know your customer
9 laws.

10 Each of these asks is consistent with international
11 treaties and guidance and could help reduce the flow of
12 precursor chemicals from China to Mexico, and fentanyl from
13 Mexico into our country. In recent years, U.S. law
14 enforcement collaboration with Mexican counterparts has
15 declined significantly.

16 I urge all relevant agencies to redouble their efforts
17 to prevent transborder crime and pursue the criminal
18 organizations' finance networks, as laid out in the U.S.,
19 Mexico Bicentennial Framework for Security, Public Health,
20 and Safe Communities.

21 In closing, I will take a moment to remember Dianne
22 Feinstein. Senator Feinstein served as both the chair and
23 co-chair of this caucus at different points for 13 years.
24 The caucus accomplished much under her leadership, and she
25 had a clear passion for reducing the number of overdose

1 deaths in our country.

2 We are all honored to have served with her on this
3 caucus and we take a moment to remember her right now. I
4 yield to my co-chair, Senator Grassley, after which I will
5 introduce the witnesses, and you may then proceed with your
6 statements.

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1 STATEMENT OF SENATOR GRASSLEY

2 Senator Grassley. First of all, I associate myself
3 with your remarks in your opening statement and also with
4 what you said about Senator Feinstein, because I had the
5 opportunity to serve with her during that period of time.

6 Let me approach it a little bit different than Senator
7 Whitehouse did, because I said I agree with what he said.
8 In the last 12 months, the Center for Disease Control and
9 Prevention reported over 112,000 drug overdose deaths.

10 This number increases each year. Now, for comparison,
11 five years ago, in 2018, the CDC reported just under 70,000
12 drug overdose deaths. Behind those statistics are real
13 American families coping with grief.

14 I am going to mention Ashley Romero's family who is
15 counted among those numbers. On the night of June 11th,
16 2018, Ashley took just half of what she thought was a pain
17 pill. Ashley had gone to the hospital over 40 times for
18 stomach pain, and she just wanted some relief. The pill
19 contained, as you know, fentanyl.

20 Ashley dropped to the floor. Her boyfriend carried her
21 to her car where she -- first responders found her dead in
22 the front seat. Ashley was just 32 years old and had an
23 eight year old son. Ashley's son began to wonder why his
24 mom wasn't there to tuck him in, as she did most nights.

25 Three days after Ashley died, when Grandpa talked him

1 into bed, he asked, "did my mom take a pill and die?" The
2 fake pill that killed Ashley traced back to Bruce Holder.
3 Bruce's fake pills killed at least seven other people. He
4 imported thousands of these fake pills from Mexico to
5 Colorado.

6 Agents from the FBI, Homeland Security, and DEA worked
7 hard to track Bruce down, and in January 2023, Bruce
8 received a life sentence. Today's hearing is going to
9 explore how deadly pills end up in the hands of dealers like
10 Bruce.

11 Criminals in China ship precursor chemicals to cartels
12 in Mexico who process those chemicals into fentanyl. I look
13 forward to discussing with this panel how Congress can help
14 dismantle the precursor pipeline. Before we turn to that, I
15 want to thank the agents for their hard work on the Bruce
16 Holder case.

17 Emotional cases take an emotional toll. This case
18 highlights the value of interagency cooperation. We work
19 better when we work together. No agency can respond to the
20 fentanyl crisis by itself. I have heard each agency talk of
21 a "whole of Government approach."

22 That approach includes Congress. I look forward to
23 working with each of you and others that aren't here to
24 tackle the fentanyl crisis. Thank you.

25 The Chairman. Thank you very much, Chairman Grassley.

1 I am delighted to welcome our witnesses. After my
2 introductions, you will each have five minutes to testify.
3 Your full statements will be made a matter of record.

4 And of course, as a matter of law, you are deemed under
5 oath when you are testifying here. Maggie Nardi is the
6 Acting Deputy Assistant Secretary and Director of Global
7 Programs and Policy in the Bureau of International Narcotics
8 and Law Enforcement Affairs at the State Department, where
9 she oversees a \$150 million portfolio of programs and
10 multilateral engagement to combat corruption, cybercrime,
11 and synthetic opioids.

12 She has worked at the Department of State for 28 years.
13 Our next witness is William Kimbell, the Drug Enforcement
14 Administration Chief of Operations and Assistant
15 Administrator for the operation's division, where he
16 commands DEA's global drug enforcement efforts across 241
17 domestic offices and 93 foreign offices in 69 countries, as
18 well as DEA's Special Operations Division.

19 Mr. Kimbell, previously served as the DEA's Deputy
20 Chief of Domestic Operations. He has served as a law
21 enforcement professional for over 29 years. Ricardo Mayoral
22 is the Deputy Assistant Director for International Programs
23 in the International Operations Division of Homeland
24 Security Investigations.

25 Mr. Mayoral provides oversight and management of HSI's

1 visa security program, biometric identification
2 transnational migration alert program -- there is a mouthful
3 for you, huh? And transnational criminal investigative
4 units that are deployed around the globe.

5 He also oversees HSI's Personnel Recovery Unit,
6 international agreement negotiations, and its engagement
7 with the Department of State. Previously, Mr. Mayoral
8 served as the Acting Assistant Director for Global Trade
9 Investigations. I welcome each of you here and invite Ms.
10 Nardi to proceed.

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1 STATEMENT OF MAGGIE NARDI, ACTING DEPUTY ASSISTANT
2 SECRETARY, BUREAU OF INTERNATIONAL NARCOTICS AND LAW
3 ENFORCEMENT AFFAIRS, U.S. DEPARTMENT OF STATE

4 Ms. Nardi. Chairman Whitehouse, Co-Chairman Grassley,
5 I want to thank you for this opportunity to discuss the
6 State Department's efforts to address precursor chemicals
7 used to illicitly produce synthetic drugs, including
8 fentanyl.

9 Addressing the threat of synthetic drugs is a top
10 priority of the Administration, and the State Department is
11 focused on three main areas -- sorry, four main areas. One,
12 reducing the diversion of precursors used in the illicit
13 manufacturing of synthetic drugs, strengthening the ability
14 of law enforcement officials to detect and interdict
15 precursors, targeting online sales and financial flows that
16 evolve from precursors, and expanding partnerships with
17 private companies, which are used unwittingly as platforms
18 for the sale and trafficking of precursors.

19 To do this, first we have created this unique forum on
20 the issue, the Global Coalition to Address Synthetic Drugs.
21 The Coalition currently has 123 participating countries and
22 11 international organizations with close to 1,500 experts
23 who are working to ensure that synthetic drugs remain a
24 priority for international cooperation and to provide a
25 venue to share information and secure agreement on

1 solutions, including on approaches to preventing the
2 diversion of precursor chemicals.

3 Through the work of the coalition, we are pressing for
4 increased international cooperation on precursor chemicals
5 to prevent their diversion to illicit supply chains.
6 Further, we are urging more countries to implement know your
7 customer laws and regulations, to develop national action
8 plans for drug and chemical disposal, to develop plans to
9 provide earlier warning, faster scheduling, and other
10 safeguards against the diversion of precursor chemicals.

11 With Mexico, we partnered to strengthen the targeting
12 and interdiction of synthetic drugs and their precursors.
13 INL has increased training, technical assistance, and
14 donations of equipment, and canines to build Mexico's
15 capacity to prevent the diversion of precursors.

16 During the recent high level security dialog, the U.S.
17 and Mexico discussed continuing progress and implementing
18 our joint action plan on synthetic drugs and precursors,
19 including by engaging private, chemical, and shipping
20 companies, sharing information on seizures and emerging
21 trends in chemical imports, enhancing maritime port security
22 at Mexico's largest seaport, Manzanillo, and exploring ways
23 to modernize and enhance security against illicit goods at
24 ports of entry.

25 So, we look forward to building on these efforts

1 through the North American Drug Dialog, which we will host
2 in November. We continue to seek productive counter-
3 narcotics cooperation with the PRC, which in the past has
4 been an effective partner on counter-narcotics.

5 However, they must do more now to prevent the diversion
6 of uncontrolled chemicals and equipment by transnational
7 criminal organizations, which is leading to the illicit
8 production of synthetic drugs.

9 Secretary Blinken consistently raises this issue with
10 high level PRC leadership, and we continue to call on the
11 PRC to share information on global chemical flows with
12 international law enforcement partners, to strengthen
13 oversight, to eliminate fraud in the export of chemicals,
14 and equipment at risk of being diverted for illicit use, and
15 to establish end-user verification and know your customer
16 systems to deny criminal actors access to global trade and
17 precursors.

18 The Department continues to use accountability tools
19 such as rewards and sanctions to disrupt the illicit
20 fentanyl supply chain, including precursors, and to help
21 bring transnational criminals to justice.

22 We have designated over 130 fentanyl related targets
23 since 2021, which includes the October 3rd designation of 25
24 PRC individuals and entities, and 3 Canadian individuals and
25 entities involved in the international proliferation of

1 illicit drugs, including fentanyl. We will continue to use
2 all tools available with us.

3 Globally, we are looking to expand the tools that
4 countries can use to strengthen their response to this
5 threat, such as the information sharing platforms available
6 through the International Narcotics Control Board, or INCB.

7 The INCB provides platforms for Customs and other
8 authorities to notify their international counterparts of
9 illicit chemical exports to prevent diversion and to report
10 interdiction of chemicals and new psychoactive substances.

11 Finally, the U.S. is a leader in mobilizing the
12 international community to place dangerous drugs and
13 precursors under international control through the UN
14 Commission on Narcotic Drugs. Last year, at the request of
15 the U.S., the CND voted unanimously to control three
16 precursors used illicitly to manufacture fentanyl.

17 I thank you for your attention to this important issue.
18 We support Congressional action to permanently schedule
19 fentanyl related substances as a class, codifying the
20 current temporary scheduling into law. Thank you, and I am
21 happy to answer any questions.

22 [The prepared statement of Ms. Nardi follows.]

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1 The Chairman. Thanks very much. Mr. Kimbell, please
2 proceed.

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1 STATEMENT OF WILLIAM F. KIMBELL, CHIEF OF OPERATIONS, DRUG
2 ENFORCEMENT ADMINISTRATION, U.S. DEPARTMENT OF JUSTICE

3 Mr. Kimbell. Good afternoon, Chairman Whitehouse, Co-
4 Chair Grassley, and distinguished members of this caucus.
5 On behalf of the Department of Justice, and in particular
6 the more than 9,000 employees of the Drug Enforcement
7 Administration, it is my honor to appear before you today.

8 I thank the caucus for bringing attention to this
9 important topic. Our nation is in the midst of a
10 devastating drug poisoning and overdose epidemic that
11 claimed the lives of more than 110,000 people this past
12 year.

13 An estimated 300 people die every day from drug
14 poisoning, and countless more overdose and survive. For
15 over 29 years, I have had the privilege of being a law
16 enforcement professional in various capacities.

17 With nearly 21 years as a DEA Special Agent, I have
18 served in locations as diverse as Argentina and Texas.
19 Currently, I am the Chief of Operations overseeing all
20 matters pertaining to the daily worldwide operations of DEA.

21 Prior to being the Chief of Operations, I was a Deputy
22 Chief of Domestic Operations, and I assure you that the
23 current drug poisoning and illicit trafficking epidemic is
24 like nothing we have ever experienced.

25 Dangerous and highly sophisticated cartels operating in

1 Mexico and the United States have been and continue to be
2 the most significant source of illicit narcotics trafficking
3 into and throughout our country.

4 So far in 2023, DEA has seized more than 65 million
5 fake pills and 10,000 pounds of fentanyl powder. That is
6 approximately 300 million daily doses of fentanyl taken off
7 America's streets. Even more concerning is now 7 out of 10
8 fake pills contain a potentially lethal dose of fentanyl.

9 As a country, we must do everything we can to stop this
10 national crisis. For our part, the men and women of DEA are
11 relentlessly focused on combating the deadly drug poisoning
12 epidemic and on saving lives.

13 DEA leads and coordinates the whole of Government law
14 enforcement response to defeat the two main Mexican drug
15 cartels, the Sinaloa and Jalisco New Generation cartel. A
16 unified response led by DEA ensures that the whole of
17 Government is moving in one direction to protect the safety
18 and health of Americans.

19 These cartels pose the greatest criminal drug threat
20 the United States has ever faced. These ruthless, violent,
21 criminal organizations have associates, facilitators, and
22 brokers in all 50 states, as well as in more than 100
23 countries around the world.

24 The Sinaloa and Jalisco cartels control the supply
25 chain for illicit fentanyl. They obtain precursors from

1 China, and these precursor chemicals are used to manufacture
2 fentanyl and other synthetic drugs in clandestine
3 laboratories in Mexico.

4 The cartels then transport fentanyl in pill and powder
5 form, along with other illicit drugs like methamphetamine,
6 heroin, and cocaine into the United States. I have seen
7 firsthand what the Mexican cartels have done to our country.
8 The cartels are destroying families and communities with
9 callous indifference and greed.

10 To defeat these two cartels and to protect our
11 communities, DEA recently launched three cross-agency teams
12 that are solely focused on defeating the Sinaloa cartel and
13 the Jalisco cartel. And recently we formed another team
14 that is solely dedicated to removing illicit finance
15 networks and replace the ill-gotten gains back -- from
16 coming to Mexico.

17 Utilizing all the tools at our -- at their disposal,
18 these teams are mapping, analyzing, and targeting the
19 cartels' entire operations, including where they purchase
20 the chemicals and precursors -- and purchase the chemicals
21 and precursor chemicals used to manufacture fentanyl, and we
22 have been extremely successful in the last year.

23 As part of this network focused strategy, DEA announced
24 Operation Chem Capture and Operation Killer Chemicals.
25 These two operations resulted indictments against numerous

1 Chinese based chemical companies and employees.

2 These companies and employees were charged with crimes
3 related to fentanyl and methamphetamine production,
4 distribution of xylazine and nitazenes, and sales resulting
5 from precursor chemicals.

6 These charges were the first against fentanyl precursor
7 chemical companies. These employees spoke freely during
8 negotiations about having clients the United States and
9 Mexico, specifically in Sinaloa, Mexico, where the Sinaloa
10 cartel is based.

11 These operations demonstrate the success of our network
12 based strategy and underscores the importance of
13 infiltrating the supply chain. Unfortunately, these
14 operations also show that fentanyl precursors are easily
15 bought online and via social media.

16 Beyond the role of law enforcement, Congress also has
17 an important role to play. I urge Congress to permanently
18 schedule non-related substances. This is critical to the
19 safety and health of Americans.

20 Thank you for your opportunity to appear before the
21 caucus today on this important issue, and I look forward to
22 your questions.

23 [The prepared statement of Mr. Kimbell follows.]

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1 The Chairman. Thanks so much. And finally, Mr.
2 Mayoral.

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1 STATEMENT OF RICARDO MAYORAL, DEPUTY ASSISTANT DIRECTOR FOR
2 INTERNATIONAL OPERATIONS, HOMELAND SECURITY INVESTIGATIONS,
3 U.S. DEPARTMENT OF HOMELAND SECURITY

4 Mr. Mayoral. Good afternoon, Chairman Whitehouse, Co-
5 Chairman Grassley, and distinguished members of the caucus.

6 Thank you for the opportunity to appear before you
7 today to discuss Homeland Security Investigations, or HSI,
8 efforts to combat the illicit trafficking of fentanyl,
9 precursor chemicals, and the financial networks which profit
10 from this deadly substance.

11 Recognizing the lives lost to this epidemic, HSI
12 developed and launched a strategy for combating illicit
13 opioids. This strategy builds over many of HSI's core
14 investigative authorities and capabilities in combating
15 transnational criminal organizations, or TCOs, and focuses
16 efforts on four goals which align with the National Drug
17 Control Strategy.

18 They are, reduce international and domestic supply of
19 illicit opioids, attack the enablers of illicit opioid
20 trafficking, and conduct outreach with private industry.
21 TCOs have evolved beyond insular entities and have partnered
22 with competing TCOs in furtherance of their criminal
23 activities.

24 For example, the illicit collaboration between Chinese
25 money laundering organizations, or MLOs, and Mexican cartels

1 has created a complex ecosystem that is fueling money
2 laundering and narcotics trafficking operations,
3 specifically illicit fentanyl, into and within the United
4 States.

5 Chinese MLOs have developed sophisticated networks in
6 the United States, Mexico, China, and throughout Asia to
7 facilitate money laundering schemes. As Mexican cartels
8 have taken over fentanyl production and operate on an
9 industrial scale, they are obtaining precursor chemicals
10 from China and combine these chemicals in Mexico to produce
11 fentanyl.

12 Mexican cartels then smuggle the fentanyl into the
13 United States in either powder or pill form for
14 distribution. Chinese criminal actors also facilitate the
15 trafficking and distribution of illicit fentanyl pills by
16 providing the Mexican cartels with the pill press equipment
17 to make fake pills.

18 HSI is attacking this illicit narcotics supply chain
19 through an intelligence based counter-narcotics operation
20 that blends investigative and analytical techniques with
21 interagency collaboration, industry partnerships, and
22 computer based tools. HSI's effort to combat TCOs and
23 illicit fentanyl begin abroad.

24 HSI has the largest international investigative
25 presence within the Department of Homeland Security. This

1 includes offices in Mexico and throughout the Asia-Pacific
2 region where precursor chemicals often originate.

3 The effectiveness of our international counter-
4 narcotics efforts is greatly enhanced by HSI's Transnational
5 Criminal Investigative Unit Program, or TCIU. TCIUs are
6 comprised of vetted foreign law enforcement officials and
7 prosecutors who support some of HSI's most significant
8 extraterritorial investigations and prosecutions targeting
9 TCOs.

10 Domestically, HSI's Border Enforcement Security Task
11 Forces, or BEST, represent one of the agency's premier tools
12 for turning border seizures into TCO toppling
13 investigations. BEST eliminate the barriers between Federal
14 and local investigations, close the gap with international
15 partners in multinational criminal investigations, and
16 minimizes vulnerability in our operations that TCOs have
17 traditionally capitalized on to exploit our nation's
18 borders.

19 In August 2023, HSI's counter fentanyl operations
20 transitioned from Southern border and international search
21 efforts to a nationwide counter opioid initiative known as
22 Operation Orion.

23 Operation Orion will continue to prioritize and target
24 dark web vendors and other cyber enabled actors that engage
25 in fentanyl distribution through the internet. A key

1 component of HSI's strategy is to attack the criminal
2 financial networks that are the lifeblood of TCO operations.

3 In 2023, HSI established the Cross-Border Financial
4 Crimes Center, or CBFCC, to strengthen the United States
5 anti-money laundering framework. The CBFCC operates at a
6 national level and convenes Federal law enforcement
7 agencies, partner nation authorities, banks, and financial
8 institutions, and financial technology companies to promote
9 collaboration on cross-border financial crime.

10 Thank you again for the opportunity to appear before
11 you today and for your continued support of HSI, and our
12 efforts to use our unique authorities and global footprint
13 to combat the illicit supply chain, the flow of illicit
14 fentanyl, and the criminal financial networks. I look
15 forward to your question.

16 [The prepared statement of Mr. Mayoral follows.]

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1 The Chairman. Thanks very much, Mr. Mayoral. We are
2 going to proceed with five minute rounds of questioning,
3 back and forth, depending on how many Senators are here from
4 side to side. Senator Hassan from New Hampshire is here,
5 and she has a pressing schedule, so I am going to swap time
6 with her.

7 So, our order will be Senator Hassan for five minutes,
8 then Senator Grassley, and then myself, and then we will go
9 on to other Senators who are here or to a second round.
10 With that, the floor is yours.

11 Senator Hassan. Thanks so much, Senator Whitehouse.
12 And I want to thank you and Senator Grassley for this
13 hearing today.

14 And, Senator Grassley, I appreciate very much the
15 terrible story, but all too familiar story that you told
16 about your constituent, Ashley. We all have these
17 constituent accounts of the impact of the fentanyl crisis on
18 our constituents, and I am grateful that you shared
19 Ashley's.

20 And I will also echo Senator Grassley in my thanks to
21 all of you and the men and women you serve with for the work
22 that you are doing to combat illicit drug trafficking and to
23 keep our country and our people safe.

24 Ms. Nardi, I want to start with a question to you. I
25 was on a recent bipartisan Congressional delegation trip to

1 China where we met with a number of senior leaders. I
2 pressed Chinese President Xi to crack down on the illicit
3 trafficking of fentanyl precursors that are made in China,
4 and as you have -- all have outlined, sold to cartels in
5 Mexico.

6 I know that the Ambassador, Ambassador Burns, has been
7 raising it regularly with the Chinese government. President
8 Xi indicated that he might be willing to take action on
9 this. He said he would look into appointing senior
10 leadership to start communication with us, and we obviously
11 now have to hold him to this.

12 What steps will the State Department take -- can it
13 take to proactively engage with its Chinese counterparts to
14 push China more to address the development and sale of
15 fentanyl precursors? And what specific goals or benchmarks
16 will the State Department set to track the progress?

17 Ms. Nardi. Thank you very much for that question. And
18 I want to thank you also for the messaging that you are
19 doing with China, as we are asking all of our allies to do
20 as well.

21 You may have seen Secretary Blinken should be meeting
22 with the Foreign Minister very soon. This will certainly be
23 on the agenda. We have the global coalition to address
24 synthetic drug threats. We have been encouraging China to
25 participate.

1 While they have not yet formally joined, they have come
2 to a number of briefings about this. They have suggested to
3 us that they would like to participate. We have suggested
4 perhaps maybe as observers. So, we are working to get them
5 involved in that aspect of our collaboration.

6 We are also talking to our allies in the EU, the G7,
7 and others to ask them when they have meetings with China to
8 also raise the same issue. I think you have all mentioned
9 the issues that we prioritize, which is establishing the
10 know your customer law, strengthening the export controls,
11 and frankly, sharing more information with us because it is
12 opaque at this point.

13 And those are our three priorities and the ones in
14 which we will continue to press. But as I say, the dialog
15 is open, and we will continue it. Thank you.

16 Senator Hassan. I appreciate that very much and look
17 forward to continuing to work with all of you on that. To
18 Mr. Kimbell and Mr. Mayoral, in the past, China has worked
19 with the United States to curb its production of fentanyl.
20 So obviously, we now need, as the cartels are changing their
21 strategies and tactics, we need China's cooperation to crack
22 down on the precursors.

23 Given President Xi's possible renewed interest in
24 engaging with the U.S. to decrease the shipping of
25 precursors to cartels and TCOs, U.S. law enforcement

1 agencies need obviously to be ready to assist in these new
2 efforts.

3 So, what role can U.S. law enforcement play in
4 disrupting the precursor pipeline if China agrees to work
5 with us? For instance, could U.S. law enforcement work with
6 China to stop illegal money laundering that bankrolls the
7 production of fentanyl precursors? And I will start with
8 you, Mr. Kimbell, and then are you, Mr. Mayoral.

9 Mr. Kimbell. The DEA recently had two high level
10 meetings with the Ministry of Public Security in China, one
11 in Beijing and one in Washington.

12 And during those meetings, we expressed our dedication
13 to sharing information with them and we ended up passing
14 several -- the names of several companies that we thought
15 that were selling precursors for manufacture of fentanyl and
16 methamphetamine.

17 So, the DEA is ready and willing at any given time to
18 share information with them and to provide them with
19 intelligence that needs to stop these companies from this
20 behavior.

21 Senator Hassan. Mr. Mayoral.

22 Mr. Mayoral. Good afternoon, ma'am. Thank you for
23 your question. HSI as a premier investigative agency is
24 ready. We have the largest international presence in
25 foreign countries. We currently have a robust presence in

1 Asia.

2 We have our transnational criminal investigative units
3 or vetted teams working side by side with our foreign
4 partners. We are ready. I know the relationship with China
5 has ebbed and flows in the past. Lately, we haven't had any
6 meaningful dialogs with our counterparts in China, but it
7 seems that, you know, we are heading in the right direction,
8 as you mentioned.

9 We are ready. In the past, we successfully worked with
10 the Ministry of Public Security of China on narcotics cases,
11 and we hope that once the relationship gets reestablished,
12 that we will reengage with them and continue collaborating
13 with them.

14 Senator Hassan. Well, I appreciate that very much.
15 Please reach out to us if we can assist. And I will just
16 note that I will submit for the record a question about the
17 availability of precursors and fentanyl on the dark web, and
18 the bill that Senator Cornyn and I have to make the J-CODE
19 Task Force permanent, something we would very much like to
20 do. Thank you very much, Mr. Chair.

21 The Chairman. Thanks, Senator Hassan. Co-Chair
22 Grassley.

23 Senator Grassley. I start with a short question to Mr.
24 Mayoral. When Mexican officials working with the United
25 States seize precursor chemicals, what evidence, if any,

1 does the Mexican government give the United States showing
2 that the seized precursor chemicals were actually destroyed?

3 Mr. Mayoral. Thank you for your question, Senator. We
4 take corruption allegations very seriously, and we work hand
5 in hand through our TCIUs with our Mexican partners --

6 Senator Grassley. Do they show you the pictures, or do
7 they show you the destruction of the precursor?

8 Mr. Mayoral. No, sir. But we do understand that they
9 hire private companies for the destruction of the evidence
10 that they seize.

11 Senator Grassley. Okay. Thank you for that. Now to
12 Mr. Kimbell. The Justice Department indicted Chapitos in
13 Southern District of California, Northern District of
14 Illinois, District of Columbia, and the Southern District of
15 New York.

16 According to the Justice Department, the Chapitos have
17 the largest, most fentanyl trafficking operation in the
18 world. The New York Times reported an inter-agency dispute
19 over the Chapitos' cases.

20 So, to my question then, has DEA headquarters always
21 provided full support to the Southern District of
22 California, Northern District of Illinois, District of
23 Columbia on their Chapitos cases and other Sinaloa cartel
24 related matters?

25 Mr. Mayoral. Yes, the DEA headquarters has always

1 provided support to those offices. The Chapitos indictment
2 was a new tactic, so we could actually demonstrate how the
3 chemical companies in China were facilitating the movement
4 of precursors to Mexico.

5 It was transferred and manufactured into fentanyl by
6 Chapitos and brought into the United States, and that
7 indictment encompassed that effort.

8 Senator Grassley. Did the DEA led special operation
9 division hold a de-conflicting meeting with the Southern
10 District of New York, Southern District of California, and
11 the Northern District of Illinois?

12 Mr. Mayoral. I do not know if they had -- held a
13 meeting, no.

14 Senator Grassley. Okay. Ms. Nardi, in September, I
15 released a report on foreign operations in Mexico. The
16 report cites embassy documents that show the State
17 Department hired Mexican nationals to fill U.S. Government
18 contract positions. What steps does the State Department
19 take to vet foreign nationals that it hires?

20 Ms. Nardi. Thank you for that question, Senator. I
21 will have to get back to you with an answer on that.

22 Senator Grassley. With a written answer?

23 Ms. Nardi. Yes.

24 Senator Grassley. Yes. Thank you. If the State
25 Department receives information that one of its foreign

1 nationals hires may be committing crimes, what steps does
2 the State Department take to protect U.S. interests?

3 Ms. Nardi. We will submit that as part of the written
4 response.

5 Senator Grassley. Okay. Ms. Nardi, for you. In July,
6 the Washington Street Journal reported, "the Biden
7 Administration is discussing lifting sanctions on a Chinese
8 police forensics institute suspected of participating in
9 human rights abuses in a bid to secure Beijing's renewed
10 cooperation in fighting fentanyl." Is the Administration
11 considering lifting sanctions against China?

12 Ms. Nardi. That is above my pay grade. But what I can
13 tell you is the Institute of forensic science, which is
14 attached to the police institute, which you are speaking of,
15 they are two separate entities, but they are attached
16 together, and that is the one that the PRC is asking us to
17 lift sanctions on. There has been no action to date to do
18 that.

19 Senator Grassley. Okay. If the Biden Administration
20 intends to lift sanctions against China, what you said was
21 above your pay grade, to secure cooperation on fentanyl,
22 would you commit to briefing members of Congress before
23 those sanctions are lifted, or is that something you can't
24 answer? But, I would like to have somebody in the State
25 Department tell me one way or the other if we can know about

1 it.

2 Ms. Nardi. We can certainly take that back, sir. I
3 mean, as I mentioned, the -- Secretary Blinken will have a
4 meeting with his counterpart soon. Certainly, these issues
5 will be among those discussed. There has been some talk of
6 finding a way to have a working group or some sort of
7 gathering to discuss issues that need to be resolved before
8 we can increase cooperation.

9 Senator Grassley. Could I ask one more question along
10 this line --

11 The Chairman. Please, of course.

12 Senator Grassley. -- then I will go to you. If the
13 Biden Administration lifts sanctions on China's police
14 forensic institute, as reported, could you commit to
15 ensuring that this action will not result in enabling the
16 Chinese police forces' surveillance and abuse of ethnic
17 minorities, which is a top priority of our Government?

18 Ms. Nardi. Again, Senator, we will include that in the
19 written response.

20 Senator Grassley. Okay. Thank you.

21 The Chairman. I am very sympathetic to the importance
22 of stopping the import of narcotics and the tools of the
23 trade.

24 And I can remember, Mr. Kimbell, when I was in your
25 line of work, laying out tables of drug product, firearms,

1 and cash associated with the transactions to show how law
2 enforcement was taking action.

3 But no criminal enterprise can last very long if the
4 proceeds of its criminal enterprise aren't being directed
5 back into the enterprise. And it has been my experience
6 that we have paid much more attention to the flow of
7 narcotics into the United States than into the flow of
8 revenues back into these international organizations.

9 And I think if we are really going to try to disable
10 them, we have to give equal measure to both sides of the
11 criminal transaction. So, thank you all for what you are
12 doing to beef up the financial investigative side of the
13 equation.

14 Mr. Mayoral, the new enterprise that you have set up on
15 illicit finance, I think has a lot of promise. There is one
16 oddity here, however, and that is that China restricts what
17 its citizens are allowed to take out of the country by way
18 of capital.

19 So, and for a whole variety of reasons, Chinese
20 citizens may very well want to move quite a lot of money out
21 of China and set up a base somewhere else, and lots of
22 people want to come to America or hold property behind rule
23 of law protections in America.

24 So, there is a very real prospect that a Chinese
25 criminal organization involved in the precursor trade to

1 create fentanyl in Mexico and ship it into the United
2 States, could be quite satisfied to leave that money in the
3 United States, not actually have to bail up the cash or send
4 the wire transfer or whatever to get the cash back to China,
5 because they are happy to own the property in the United
6 States

7 If that is the case, we need to have quite good eyes
8 into who is behind shell corporations, because they are not
9 going to hold it in their own names. And I would like to
10 -- along with Chair Grassley, we were the two original
11 Judiciary committee leads on the Corporate Transparency Act,
12 along with Senator Graham, and it ended up coming out of
13 Banking because of a last minute shift.

14 But most of the work was done in Judiciary. So, we put
15 a lot of work into that, and I would like to ask each of
16 your organizations to take that point and use your
17 participation in the interagency task force related to the
18 Corporate Transparency Act, which is being led by Treasury,
19 to make sure that they are doing a really robust exposition
20 of that law.

21 That the regulations that they are putting forward will
22 address that problem. To each of you, let me say, do you
23 accept that that is a real problem that ought to be
24 addressed and that transparency about foreign nationals
25 owning property in the United States is an important piece

1 of getting that right? I am going to go right across the
2 table and start with you, Ms. Nardi.

3 Ms. Nardi. Thank you, Mr. Chairman, for that question.
4 I mean, issues of beneficial ownership are high on our list
5 of priorities in INL.

6 At the State Department, we will be hosting the UN
7 Convention Against Corruption Conference of States Parties
8 in Atlanta in December, and beneficial ownership is one of
9 the main topics, along with asset recovery, transparency,
10 and accountability measures.

11 It is something that we are raising in all multilateral
12 fora, and it is definitely a priority for us.

13 The Chairman. Mr. Kimbell, same question.

14 Mr. Kimbell. Thank you, Chairman, for that question.
15 In all of our investigations, we are dedicated to removing
16 illicit finance.

17 We have discovered within the last year that the
18 Chinese underground banking system is becoming more and more
19 robust, and we are seeing the Chinese underground banking
20 system utilized heavily by the Mexican drug cartels as their
21 preferred money laundering mechanism.

22 So, we are dedicated to removing that and focusing on
23 the Chinese money laundering group and their underground
24 banking system.

25 The Chairman. Well, I know DOJ is very involved in

1 this, so please take back my encouragement to DOJ to send
2 the message to Treasury to make sure that those are very
3 robust regulations. And finally, Mr. Mayoral.

4 Mr. Mayoral. Thank you for your question, Chairman.
5 HSI works diligently to attack the Chinese money laundering
6 organizations that are supporting the cartels. We clearly
7 are always willing to work with Congress on identifying
8 additional authorities and resources to continue to attack
9 TCOs operating within our borders and across our borders.

10 HSI takes, you know, very seriously, you know, going
11 after the proceeds, the ill-gotten gains of cartels. We,
12 like I said in my opening remarks, created a cross-border
13 financial crime center to specifically target all the
14 methods that Chinese money laundering organizations are
15 currently utilizing to launder the proceeds of the sale of
16 narcotics.

17 We have seen the use of underground banking systems, as
18 you mentioned, in which the Chinese money laundering
19 organizations have an excess of cash here in the U.S., which
20 are then selling them on the black market to other Chinese
21 nationals that have been restricted by the new capital
22 flight restrictions imposed by the Chinese Communist Party.

23 We are aware of -- we have a very good understanding of
24 what is happening, and we are going to continue to attack
25 the weakest points of the -- not only the supply chain that

1 they utilize to bring the fentanyl into the U.S., but the
2 weakest points that we can target to dismantle the money
3 laundering organizations that are operating within our
4 borders.

5 The Chairman. Thank you. Before I turn it over to Co-
6 Chair Grassley, I will mention that one of the episodes in
7 the enforcement of our bill was that the original Corporate
8 Transparency Act proposal was on the form itself instead of
9 having to fill in the information that we wanted that would
10 identify the real beneficial owner, there was a box you
11 could check and not disclose the information.

12 If I remember correctly, the box just said unknown. It
13 sort of defeats the purpose of the exercise. So luckily,
14 Treasury has pulled back from that and has decided that is a
15 terrible idea, I think under considerable pressure from law
16 enforcement. So, to the extent you had a hand in that,
17 thank you for that.

18 But the idea that a disclosure measure can be defeated
19 by simply checking a box that is unknown shows how
20 ineffectual enforcement regulations can sometimes be. With
21 that, let me turn it over to my Co-Chair.

22 Senator Grassley. I guess it proves that Congress
23 should be more specific when we write the legislation.

24 The Chairman. And watchful when they write their regs.

25 Senator Grassley. Yes. I am going to start out with

1 Ms. Nardi. In May, Senator Whitehouse and I wrote the
2 Chinese Embassy asking for help combating precursor
3 chemicals. They wrote back saying, "the United States only
4 temporarily schedules fentanyl substances.

5 If the U.S. can put those substances under permanent
6 scheduling as soon as possible, it will be more conducive to
7 addressing U.S. drug issues on the supply side."

8 How has Congress's inability to permanently schedule
9 fentanyl knockoffs impacted China's assistance to the United
10 States on fentanyl related issues?

11 Ms. Nardi. Thank you, Senator, for that question.
12 Well, I can say that they raise it at every single
13 opportunity that we have. Whether that is, in fact, the key
14 to making a difference, we won't know unless that happens,
15 but it is something that they raise every single time we
16 meet with them.

17 Senator Grassley. So, if Congress would pass it, then
18 we would find -- it would test them, their sincerity, and
19 like they said in their answer to Senator Whitehouse and me.

20 Ms. Nardi. Correct.

21 Senator Grassley. Okay. Mr. Mayoral, the New York
22 Times reported that in May 2022, Homeland Security
23 Investigations saw an opportunity to arrest at least one of
24 the Chapitos and wanted to take that action. Did Homeland
25 Security see an opportunity to arrest at least one of the

1 cartel named in May 2022?

2 Mr. Mayoral. That is correct, Co-Chairman Grassley.
3 We had an opportunity to go after one of the Chapitos, and
4 for reasons that you have very well documented on your
5 report in letters to the DHS Secretary, we weren't able to
6 execute.

7 Senator Grassley. Okay. Former Deputy Attorney
8 General Rosen -- to you, sir. Former Deputy Attorney
9 General Rosen issued a memo titled, "Adjudication of Venue
10 Disputes Related to Multi-District Investigations and
11 Prosecutions of International Narcotics Trafficking."

12 Also, of course, this is known as the Rosen memo. It
13 was designed to sort out agency and jurisdictional issues
14 for international narcotics cases. Was this memo in effect
15 May 2022?

16 Mr. Mayoral. Honestly, Co-Chairman Grassley, I am not
17 sure if it was effective on that -- during that timeframe,
18 but we are committed to continue to work with our partners
19 in DEA in going after the hierarchy and the higher ups of
20 the Sinaloa cartel and Jalisco Nueva Generación, which are
21 the top cartels sending fentanyl to the U.S.

22 Senator Grassley. Well, I think I -- so, I think you
23 gave me the best answer you can now, but I think I need an
24 answer to know whether that memo was in effect in May 2022.
25 And if it wasn't in effect, why it wasn't in effect. Can

1 you answer that in writing?

2 Mr. Mayoral. We will get back to you. Definitely,
3 sir.

4 Senator Grassley. Okay. Then also to Mr. Mayoral, the
5 Chinese embassy told Senator Whitehouse and me in a letter
6 that "China is not the main source of chemicals of Mexico,"
7 and then continuing to quote, "that the amount of chemicals
8 exported to Mexico from the U.S. far exceeds that from
9 Mexico." Mr. Mayoral, can you shed some light on which
10 country sends more precursor chemicals into Mexico?

11 Mr. Mayoral. Thank you for your question, Senator. I
12 don't have the trade data in front of me, but my
13 understanding is -- and we will -- definitely will have to
14 go back and check. I will provide a written answer for you.
15 But my understanding has been that China is the main source
16 of chemicals to Mexico. But again, the big caveat is they
17 don't have the trade data in front of me, so.

18 Senator Grassley. Well, I appreciate your saying you
19 will get me that information.

20 Mr. Mayoral. Yes, sir.

21 Senator Grassley. Yes, thank you. Also, to -- now to
22 Mr. Kimbell, last week, I joined a letter to Meta led by
23 Senator Ernst that flagged several Facebook posts
24 advertising the sale of precursor chemicals online.

25 These precursors were list one chemicals under the

1 Controlled Substances Act. So, to you, has the DEA had
2 conversation with tech companies to find solutions to
3 illegal online sales and end to end encryption problems?

4 Mr. Kimbell. Thank you for the question, Senator. We
5 have had multiple periods of dialog with the social media
6 companies to increase their cooperation and to stop the sale
7 and distribution of drugs along their platforms.

8 We are generally concerned about end to end encryption.
9 That is, some companies use it completely and others are
10 -- we anticipate other companies using it more, and this
11 will prevent us from gathering intelligence through court
12 ordered process and evidence against the trafficking of
13 illicit substance over social media networks.

14 Senator Grassley. Yes. While we are on the subject of
15 tech companies, can you give us some ideas how they can
16 better assist law enforcement?

17 Mr. Kimbell. They can provide more leads when they
18 determine that people are using their platforms to
19 distribute illicit substances, and they can also comply with
20 a court ordered process to provide information and evidence
21 when the court order process is served against them in drug
22 enforcement investigations.

23 Senator Grassley. Yes. This is my last series of
24 questions, and they are also to Mr. Kimbell. I have been
25 investigating whistleblower allegations of contract

1 irregularities at DEA involving Administrator Milgram.

2 Whistleblowers allege she directed the hiring of her
3 friends and former associates, sometimes by sole source
4 contractors awarded without competition. This includes the
5 sole source contract to WilmerHale for production of a
6 report on DEA's foreign operations.

7 So far, the DEA has improperly cited an ongoing
8 investigation by the Office of Inspector General to refuse
9 answering my questions, even though the Inspector General's
10 Office had advised me that DEA can respond.

11 So, do you, considering the fact that the taxpayers
12 paid for the WilmerHale report, did anyone at the DEA ask
13 for or make any substantive changes to the WilmerHale report
14 before it was publicly released? And if so, who and why?

15 Mr. Kimbell. Thank you for your question, Senator. I
16 have no knowledge of anyone altering the report before it
17 was released.

18 Senator Grassley. Okay. Then my last question, also
19 to you. According to whistleblower disclosures, DEA is
20 requiring senior agents to run their work through Mr. Jose
21 Cordero, a former associate of the administrator who was
22 awarded a sole source contract with DEA.

23 When a sole source contract is awarded to a contractor,
24 is it DEA standard practice to require its agency employees
25 to report to that contractor for decision making,

1 essentially subordinating those employees to the contractor?

2 Mr. Kimbell. Senator, thank you for your question.

3 DEA supervisors do not report to any contractor.

4 Senator Grassley. Okay. Thank you. I am done. Thank
5 you.

6 The Chairman. Thanks very much. Just, please make
7 sure you are taking good notes of Senator Grassley's
8 questions and that we get timely responses. One of the
9 frustrations of being in our line of work is that very often
10 people in your line of work say that you will get back to us
11 and then don't.

12 So, please do a couple of things. With respect to DOJ,
13 there has been a lot of talk in this hearing about fentanyl
14 scheduling and making it permanent. And when we start down
15 that path, there are very often definitional issues that
16 come up about what is a fentanyl knockoff or what is
17 sufficiently like or not like fentanyl, so that people can
18 know whether it is being scheduled as a -- what is being
19 schedule, I should say.

20 It is a highly technical question. Can you get me
21 whatever DOJ's latest and greatest is on what language you
22 would like to see in a fentanyl scheduling statute? Mr.
23 Kimbell.

24 Mr. Kimbell. Thank you for your question, sir. Yes,
25 we can.

1 The Chairman. Great. I would appreciate that. And I
2 would say that cooperation amongst all of your agencies
3 seems to be improving. And the focus on the illicit finance
4 networks that prop-up the fentanyl dealers seems to be
5 improving.

6 I think we still have a pretty significant gap with
7 financial secrecy in the U.S., where you don't need to bring
8 the money home. In some instances, you buy yourself a
9 house, you open up a big stock account, you take advantage
10 of your ability to travel to the U.S. and basically build
11 assets for yourself here, again, protected by U.S. rule of
12 law and very often secrecy interferes.

13 And it is a recurring frustration of mine that
14 investment houses aren't subject to the same anti-money
15 laundering and transparency requirements as banks, and real
16 estate is very often an easy way to hide stolen assets in
17 the United States.

18 So, the more you can continue to press in those areas
19 -- I am the author of the Enablers Act. I would love to see
20 that passed into law. I would like to make sure that your
21 agencies are encouraging that as much as possible.

22 Continuing the geographic targeting orders on a regular
23 basis and for a long time, I think will be a really strong
24 signal to market, so I would encourage that as well. And I
25 will turn it over to Senator Lujan in one second, but with

1 respect to the business of the precursor chemicals coming
2 into Mexico from China.

3 Mr. Kimbell, you have got an enormous amount of
4 experience. If you were giving advice to a new DEA agent
5 going into Mexico to try to address this problem, what are
6 the opportunities and difficulties that you would brief them
7 on with respect to how you track a precursor when the
8 precursor itself is not contraband as you are trying to
9 defeat the fentanyl trade?

10 Mr. Kimbell. Thank you, Chairman, for that question.
11 The trafficking of precursor chemicals is extremely
12 difficult for all of our -- all of us at the table to track
13 and to deal with. Precursor chemicals come in a lot of
14 different shapes, forms, and substances, and nowadays the
15 chemical companies in China are selling them in a manner
16 where it is very easy to mix them to produce fentanyl.

17 If we really look at the way that illicit finance is
18 used to purchase chemicals, that is a very good pointer
19 system to actually what companies are selling precursor
20 chemicals. So, we are starting off with known Mexican
21 cartel members --

22 The Chairman. That is an important clue.

23 Mr. Kimbell. Yes.

24 The Chairman. If there is a legitimate transaction
25 that buys the precursor chemical, it is a signal that its

1 use is likely to be legitimate. Or if it is illicit
2 funding, that is a pretty good sign its use is likely to be
3 illicit.

4 Mr. Kimbell. Yes, sir. If we start off looking at the
5 known target from the Sinaloa or CJNG cartel, and then we
6 follow their financial transactions to the chemical
7 companies in China, and that is the first step we look at
8 when we are looking at packages coming back and forth from
9 China.

10 The Chairman. Let me turn it over to Senator Lujan,
11 who has a State that is vitally interested in this question.

12 Senator Lujan. Thank you, Mr. Chairman. I appreciate
13 your line of questioning as well and thank you and the
14 ranking member for this important hearing.

15 I want to thank our panels and our experts for being
16 here, as well as the supporting teams that are with you as
17 well. Earlier this month, the Justice Department unsealed
18 eight indictments, charging China based companies and their
19 employees with crimes relating to fentanyl, with
20 methamphetamine production and distribution of synthetic
21 opioids, and sales resulting from precursor chemicals.

22 While I applaud the work of law enforcement in this
23 case, we know that this is just a drop in the bucket. And
24 if we shut down one organization in America, another one
25 pops up to fill the vacuum. The United States has to do a

1 better job to prevent these transnational criminal
2 organizations from using legitimate channels of commerce to
3 transport their products and launder their profits.

4 These are businesses. They are making money. Money is
5 moving not just to buy chemicals, but once they sell
6 product, that money doesn't just disappear. It goes to the
7 bad folks that are moving the product.

8 Mr. Kimbell and Mr. Mayoral, what is the DEA and HSI
9 doing to cut off the TCOs from using our banking system and
10 our supply chains?

11 Mr. Kimbell. Sir, within the last year, we focused a
12 large part of our investigative effort into identifying the
13 whole supply chain of fentanyl, from the Chinese companies
14 that are supplying precursors, to the Mexican drug cartels
15 that are manufacturing it, and then how the companies, or
16 how money launderers are getting money back into Mexico.

17 We are using our Attorney General exempted accounts as
18 a pointer system. We are actually laundering money through
19 our accounts, and we use that as a pointer system to find
20 other money laundering groups that are also working for the
21 cartels.

22 It has been very successful in identifying new networks
23 and new players and new businesses that are using drug
24 -- that are moving drug money for the cartels.

25 Mr. Mayoral. Senator Lujan thank you for your

1 question. HSI is a premier law enforcement agency.

2 I worked recently to create our cross-border financial
3 crimes center, which will bring a whole Government approach,
4 and we will be partnering with other Federal law enforcement
5 agencies, State, tribal, and local, and also with the
6 private sector, the financial sector specifically and the
7 financial technology sectors, to not only work together to
8 attack the transnational criminal organizations, and more
9 specifically the Chinese money laundering organizations that
10 are being used by the Mexican cartels to launder their ill-
11 gotten gains.

12 We will work, among other things, to build capacity at
13 the local and State and tribal level to provide those agents
14 in the field with the understanding and the tools to work
15 complex money laundering investigations.

16 We will also conduct, and we are currently doing this,
17 conduct a proactive outreach to the financial sector and the
18 financial technology sectors to let them know what the new
19 trends that we are seeing in regards to money laundering so
20 they can build more resilient anti-money laundering efforts.
21 It is a whole of Government approach.

22 Obviously, we have to partner up with the private
23 sector. And capacity building is one of the main pillars of
24 the creation of our center. Thank you.

25 Senator Lujan. Has anyone gone to jail for laundering

1 money with the cartels in the last year in the United
2 States?

3 Mr. Mayoral. Yes.

4 Mr. Kimbell. Yes.

5 Senator Lujan. Have any financial institution lost
6 their charter for getting caught laundering money with the
7 cartels in the United States in the last year?

8 Mr. Kimbell. I am not aware of that.

9 Mr. Mayoral. Yes. I can't recall any recently.

10 Senator Lujan. I am not aware either. The process in
11 the United States, Mr. Chairman, is one that needs attention
12 in this specific area.

13 It is my understanding that when a financial
14 institution is caught laundering money, there is an
15 agreement with the Treasury Department that that financial
16 institution gets to hire someone, with the approval of the
17 Treasury -- I mean, give me this deal every day -- and then
18 that person gets to come up with some corrective plan for
19 that financial institution.

20 Look, I grew up near a dairy going home. They made
21 money selling milk. The more milk they could sell, the
22 better off the family did. If my cost of doing business
23 says you are going to slap me with a \$50 million fine, but I
24 can make \$100 million off the deal, I will take the deal.
25 Because it seems like that is what they are doing today.

1 And I am very concerned that in this specific area, the
2 rules governing how enforcement actions are being carried
3 when it comes to the money transactions, which to me this
4 -- that is what this is all about, needs help and support.

5 And I hope that through all of your expertise, and the
6 work that you do, and the investigations that you conduct,
7 and how thorough they are, I remain frustrated that no
8 charters are lost and the people that are laundering the
9 money themselves, they don't go to jail. If you are rich
10 enough in America, you can do whatever you want.

11 You don't go to jail. And that is what concerns me in
12 this space where we all have friends, constituents,
13 families, or loved ones from ourselves that are dying from
14 all this stuff, but the folks making money off of it seem to
15 be doing all right.

16 And it frustrates you, Mr. Chairman. I appreciate this
17 hearing very much. I look forward to learning more from you
18 all and doing my part to carry initiatives, legislation, ask
19 questions so that the entities responsible for going after
20 that side of this business, that you have the tools you need
21 if they are not going to do it themselves.

22 And so, thank you for the work that you do and the
23 commitment that you made to the United States of America.
24 And, Mr. Chairman, the work that you are doing. You know
25 better than most.

1 You have a stellar record when it comes to standing up
2 for people and for justice, and I am grateful that you are
3 here, sir, as the chair of this committee, with our ranking
4 member, and all the staff -- that you all do.

5 But I certainly hope that this is a place that we can
6 find agreement and we can dig in more. I have other
7 questions. I will submit them into the record. Thank you
8 for letting me go over my time.

9 The Chairman. Thanks very much, Senator Lujan. We are
10 going to wrap up the hearing here. Let me thank each of you
11 for participating today and thank you and the people you
12 work with for the work they do to try to defend us in the
13 fentanyl crisis.

14 The way this is going to work is that I will say that
15 committee members who have a question for the record that
16 they would like to submit should send it in by close of
17 business Friday, so we can forward them to you as they come
18 in.

19 Questions that have been put on the record,
20 particularly those by Chairman Grassley during your
21 conversation, you are responsible for answering, whether or
22 not they choose to put that into a QFR.

23 I will leave that to Senator Grassley's staff whether
24 they care to supplement or not, but the ones that are on the
25 record, I want to make sure that you answer. And I would

1 like to, if it works for all of you, try to shoot for a two
2 week turnaround on the answers.

3 It may not be possible. I understand bureaucracy, but
4 that would be the target, and we will start following up
5 after that if we haven't got the answers back. So, I hope
6 that that is achievable.

7 And again, thank you all for the work that you are
8 doing. I think the more that we can tear down the illicit
9 finance operation that supports the criminal fentanyl
10 enterprise, the more we can also degrade other criminal
11 narcotics enterprise, and frankly, the more we end up
12 degrading the kleptocrats and the autocrats and
13 international criminality around the world.

14 A whole set of bad behavior, dark industries, evil
15 governance is propped up by the ability to hide money,
16 particularly behind the protections of rule of law
17 countries, and we have to do a better job in the rule of law
18 countries of rooting it out.

19 So, again, thank you for your help in this effort. And
20 with that, the hearing is concluded.

21 [Whereupon, at 4:11 p.m., the hearing was adjourned.]

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