

U.S. Department of the Treasury

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Testimony before the Senate Caucus on International Narcotics Control

The Role of the Federal Government in Attacking the Financial Networks of Cartels

July 12, 2022

Chairman Whitehouse, Chairman Grassley, and Distinguished Members of the Caucus, I want to thank you for the invitation to speak today on behalf of the Treasury Department about this critical national security issue. I am pleased to be here alongside interagency colleagues with whom we work closely on counter-narcotics priorities.

The Treasury Department has long recognized the threat from money laundering linked to drug trafficking. We are key implementers of the President's National Drug Control Strategy (NDCS), which identifies counter illicit finance as a critical pillar to degrade and disrupt transnational criminal organizations (TCOs) that traffic drugs. It was our privilege to contribute to the work of the Commission on Combating Synthetic Opioid Trafficking, ably led by Senator Tom Cotton and Representative David Trone, which outlined a strategic approach to combating the illegal flow of synthetic opioids into the United States. We have long been a key source of expertise in this arena across the interagency and with our partners in the private sector and around the world.

I will provide a broad overview of how the Treasury Department's Office of Terrorism and Financial Intelligence (TFI) uses its unique authorities to target the TCOs and money launderers that fuel the global narcotics trade, especially the criminals, financiers, and facilitators behind more than one hundred thousand American deaths last year. Treasury pursues a multi-pronged strategy against these threats that encompasses: (1) understanding risks and mapping TCO financial networks; (2) imposing preventative measures on financial institutions that include reporting suspicious activity, which directly generates lead information for law enforcement; (3) public-private partnerships to facilitate robust information-sharing; (4) the use of targeted financial sanctions to identify and cut off TCOs, their members, and enablers from the international financial system; (5) closing outstanding regulatory gaps; and (6) working with international partners.

Financial crimes impose a significant cost on ordinary Americans. Illicit financial activity distorts markets and victimizes a wide swathe of our society. Drug trafficking, and the profits derived from it, are particularly pernicious threats. Drug overdose deaths are exacting a terrible toll in the United States and on American families, with an estimated 108,000 deaths in 2021, an

increase of 15% over the previous year.¹ Such numbers do not only represent a public health crisis, but also a threat to U.S. national and economic security.

Combating the illicit financial networks that support and benefit from drug trafficking begins with learning how these criminals exploit the U.S. financial system. Based on the lessons learned from our support to law enforcement investigations, as well as engagement with our critical private sector and international partners, we understand the money laundering risk the United States faces from a variety of criminal actors, including drug cartels.

As documented in the 2022 National Money Laundering Risk Assessment, the movement and laundering of drug proceeds in the United States continues to be dominated by traditional methods and techniques, such as bulk cash smuggling (BCS) and trade-based money laundering (TBML). Law enforcement is seeing an increase in TCOs' use of Chinese Money Laundering Organizations (CMLOs) that offer services at lower fees than traditional money brokers, exploit Chinese currency controls, and use communication technology effectively. TCOs are growing more comfortable with darknet markets and the use of digital assets to launder funds, although the size and scope of drug proceeds generated on the darknet and laundered via digital assets remain low in comparison to cash-based retail street sales.

These assessments of risk feed directly into applying preventive measures to financial institutions at the front lines of protecting the integrity of the U.S. financial system. Preventative measures, including due diligence, record keeping, and reporting requirements, provide the basis for law enforcement investigation of all manner of illegal activity, including drug trafficking. The highly valuable financial intelligence we collect under the auspices of the Bank Secrecy Act (BSA) is one of our most important tools to analyze and track this activity and begin to map TCO-linked financial activity. The U.S. financial intelligence unit, the Financial Crimes Enforcement Network (FinCEN), analyzes BSA information and makes it available to law enforcement to identify illicit actors and financial networks abusing the U.S. financial system to launder the proceeds of illicit opioids and purchase the precursor chemicals required for their manufacture. Financial intelligence is crucial to identifying previously unknown financial connections and other relationships within TCOs and their financial facilitators and understanding their money laundering schemes. The information is essential to supporting complex law enforcement investigations of drug cartels. In this, we work very closely with our colleagues from the Departments of Justice and Homeland Security.

Further underscoring the highly valuable nature of BSA reporting in this area, FinCEN listed TCO activity as one of its Anti-Money Laundering and Countering the Financing of Terrorism (AML/CFT) National Priorities (Priorities) last June, as required by Congress in the Anti-Money

¹ Centers for Disease Control and Prevention, National Vital Statistics System, Provisional Drug Overdose Death Counts, [Products - Vital Statistics Rapid Release - Provisional Drug Overdose Data \(cdc.gov\)](https://www.cdc.gov/nchs/data/pressrel/2022/prov-drug-overdose-death-counts-2022-06-05.htm) (data are current as of June 5, 2022).

Laundering Act of 2020 (AMLA).² These Priorities are intended, once final implementing rules are effective, to help guide greater focus and collaboration among the private and public sectors in tackling the challenge of TCO activity.

Treasury prioritizes the use of public-private partnerships to ensure we and our financial institution partners have access to the most up-to-date information about illicit financial activity. In 2019, for example, FinCEN released an advisory to alert financial institutions to illicit financial schemes and mechanisms related to the trafficking of fentanyl, fentanyl analogues, and other synthetic opioids, and to assist them in detecting and reporting related activity to law enforcement. The typologies incorporated into the advisory are taken from robust information-sharing mechanisms that we maintain with private sector partners.

The information we collect from these efforts directly informs targeted action to disrupt TCO operations, including cutting off these criminals from the international financial system. The Treasury Department's sanctions authorities are among our most effective tools for targeting the command, control, and financial facilitation infrastructure of TCOs worldwide. Our historic use of the Kingpin Act, long the central counter-narcotics authority, has led to notable successes, and the Office of Foreign Assets Control (OFAC) has added more than 2,200 individuals and entities to the List of Specially Designated Nationals and Blocked Persons, or SDN List, under that authority. We have aggressively targeted the most notorious drug cartels, their leaders, and their support networks, and in the process, imposed material financial costs that disrupt and deter TCO operations.

The nature of illicit drug trafficking, however, has changed dramatically since the Kingpin Act was passed in 1999 — cartels and other illicit drug actors increasingly operate in diffuse and decentralized ways. Synthetic opioid and precursor trafficking, in particular, has changed the traditional “kingpin” model in existence at the time the Kingpin Act was enacted, during the zenith of Colombian cocaine production. Never has the illicit drug trade created such death, destruction, misery, and lost opportunity for Americans as fentanyl and synthetic opioids. Of the nearly 108,000 drug overdose deaths, two-thirds are attributed to fentanyl. Criminals and those who supply and produce fentanyl and synthetic opioids are now weaponizing the illicit drugs that are killing Americans in mass numbers.

The President's December 2021 Executive Order (E.O. 14059), titled “Imposing Sanctions on Persons Involved in the Global Illicit Drug Trade,” supports the Biden-Harris administration's priority to disrupt the operations of the drug cartels and their enablers who direct the supply of illicit drugs to U.S. markets. This E.O. affords OFAC greater flexibility to sanction foreign actors involved in narcotics trafficking that threaten U.S. national security, particularly those tied to synthetic opioids. While this is a global challenge, much of the synthetic opioids trafficked into our communities are unlawfully produced in Mexico from precursor chemicals sourced primarily in China. We have not hesitated to use this authority. Our first tranche of designations

² FinCEN, “Anti Money Laundering and Countering the Financing of Terrorism National Priorities,” June 30, 2021, [AML/CFT Priorities \(June 30, 2021\) \(fincen.gov\)](https://www.fincen.gov/aml/cft-priorities-june-30-2021).

under this new E.O. in December 2021 included global targets based in Brazil, China, Colombia, and Mexico. Those sanctioned include individuals who traffic fentanyl, and its precursor chemicals, methamphetamine, cocaine, and heroin, as well as organizations that pose the greatest drug threat to the United States.

In February of this year, we worked with interagency partners and government of Mexico counterparts to target Sergio Armando Orozco Rodriguez, a major Jalisco New Generation Cartel (CJNG) operative operating in the Mexican port of Puerto Vallarta. We designated this individual for engaging in a variety of illicit activities on behalf of CJNG, an OFAC designated drug cartel, including money laundering and extortion. Controlling criminal activity in and around the port is essential for CJNG's drug production efforts and we will continue working with the Mexican government to disrupt their illicit infrastructure.

In addition to targeting drug traffickers and enablers where they operate, the Treasury Department works to adapt the U.S. AML/CFT regime to close remaining regulatory gaps. TCOs try to exploit any vulnerability they can find in the U.S. financial system, including facilitators and enablers in the legal, accounting, and trust and company services providers sectors. As a result, we are continuously looking to strengthen our laws, regulations, processes, technologies, and skills to deny a variety of illicit threat actors, including TCOs, the benefits of access to U.S. financial services. The 2020 National Strategy for Combating Terrorist and Other Illicit Financing lays out an ambitious agenda for ensuring our regime remains a model of effectiveness and innovation. This vision for our AML/CFT regime is also enumerated in the Administration's U.S. Strategy on Countering Corruption.

Many of our priorities will directly support counter-narcotics efforts, including implementation of the beneficial ownership information (BOI) reporting and collection regime established by the Corporate Transparency Act (CTA). Collection of information on the beneficial owners of companies formed or registered to do business in the United States will make it much easier for law enforcement to identify the individuals behind shell and front companies used to launder the proceeds of drug traffickers and take action.

Another priority in this category is addressing how drug traffickers exploit the U.S. real estate market. As documented in our money laundering risk assessment, TCOs find purchasing real estate in the United States a popular way to launder drug proceeds, including using residential and commercial property as an investment, as stash houses, or sites to grow, manufacture, or distribute illicit narcotics. It is for these reasons that in December, FinCEN started a rulemaking process to address how corrupt and criminal actors exploit the U.S. real estate sector by bringing greater transparency to non-financed transactions, which we have assessed as a key vulnerability that criminals exploit.

Finally, targeting the global supply chain for synthetic opioids, precursor chemicals, and other illicit drugs requires close alignment with our foreign allies and partners. We have long prioritized protecting the international financial system against abuse from criminal actors and

national security threats, including drug traffickers. At the Financial Action Task Force (FATF), the global standard-setting body for AML/CFT, we have worked to help all countries strengthen their ability to detect, investigate, and prosecute money laundering linked to drug trafficking. We also take this approach on a regional and bilateral basis.

My first trip as Under Secretary was to Mexico, and this was an essential opportunity to build strong relationships with key counterparts. While there, I met with public and private sector partners to discuss ways to enhance our collaboration on counter-narcotics, human smuggling, and anti-corruption. One of the key cooperation areas of the U.S.-Mexico Bicentennial Framework for Security, Public Health, and Safe Communities, a comprehensive, long-term approach for binational actions to pursue the safety and security of our societies committed to at the October 2021 High-Level Security Dialogue, is disrupting the capacity of TCOs and their illicit supply chains. We will also continue to support ongoing Biden-Harris administration efforts to engage China on counter-narcotics, including encouraging and pressing Beijing to curtail the illicit diversion of Chinese-origin precursor chemicals to Mexican drug cartels.

So long as major criminal organizations threaten the U.S. financial system, the Treasury Department will maintain these significant lines of effort. I want to close by thanking the Caucus for its support.