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House Committee on Homeland Security, Subcommittee on Counterterrorism, Law Enforcement, and Intelligence

Testimony of Mr. Christopher Urben

Chairman Pfluger, Ranking Member Magaziner, and distinguished members of this subcommittee, thank you for the opportunity to address you today on this important issue.

I spent twenty-four years working for the United States Drug Enforcement Administration ("DEA"), where I worked as an agent and supervisor to investigate and disrupt or dismantle significant transnational criminal organizations ("TCOs") within the United States and around the world.

During the last several years of my career with DEA, I worked in DEA's Special Operations Division ("SOD") with an interagency group to target what we identified as a growing threat: the growing collaboration between Chinese and Mexican TCOs in trafficking of fentanyl and in money laundering activities. It's a development that I and others at SOD dedicated substantial efforts to understanding and addressing, and that may be relevant to this Subcommittee's consideration as it seeks ways to address threats to the homeland posed by TCOs.

To understand how this collaboration works, it's important to understand how it developed. Mexican cartels, including the Sinaloa and Cartel Jalisco New Generation ("CJNG"), have long-established control over territory in Mexico and access to supply and distribution chains extending into the United States. This dates from their time trafficking cocaine, heroin, and other drugs that are produced south of the U.S. border into the United States for sale.

The cartels used that control and access to move into the fentanyl/synthetic opioid marketplace as the source of supply for these deadly drugs became available, primarily via precursor chemicals supplied by Chinese TCOs. Prior to approximately 2019, the cartels and drug dealers within the United States were receiving fentanyl in shipments directly from chemical brokers in China and selling it in the United States. Then, the Chinese government started cracking down on the production of pure fentanyl in mainland China and its shipment and sale into the United States. Now, Mexican cartels increasingly are receiving what are known as precursor chemicals via chemical brokers in China and using them to produce fentanyl themselves in territory they control in Mexico for distribution into the United States.

The potency of the synthetic opioids created in Mexican cartel-run drug labs has made them particularly dangerous – as the DEA has reported previously, one kilogram of pure fentanyl has enough opioid to kill 500,000 people. Because of the Mexican cartels' powerful existing distribution networks, it's relatively easy for them to smuggle fentanyl into the United States. Where once the cartels might have had to smuggle tractor trailers full of cocaine, heroin, or other drugs into the United States to supply the market, now just a few kilos smuggled via passenger cars or individual travelers, or via the mail, can supply equivalent potency to local drug trafficking organizations ("DTOs") here in the United States, which mix the fentanyl with other chemicals for consumption or process them into counterfeit pills for sale on the street or over the Internet.

This development presents an unprecedented challenge by itself. But there's another part of this growing relationship that helps fuel the success of synthetic opioid production and distribution: the growing role that Chinese TCOs have taken in laundering drug proceeds for the Mexican cartels in a way that's safer, quicker, and more profitable for the cartels.

The most predominant laundering scheme that had been employed by the Mexican cartels, known as the Black-Market Peso Exchange ("BMPE"), was complex and dangerous, resulting in high transaction costs of 7-10 percent of the total amount laundered and lengthy delays of a week or more. Moreover, because of the BMPE connection to the cartels, laundering involved a constant risk of violence, theft, or law enforcement intervention.

The method used by the Chinese TCOs avoids the costs, delays, and risks of the BMPE by employing brokers in three countries – China, the United States, and Mexico – and by addressing needs of other participants in the global economy that are in China or that do business with China.

As reflected by the graphic in Exhibit 1 to my testimony, here's how it works:

Every day in the U.S., Chinese money brokers pick up narcotics proceeds – from sales of fentanyl and other synthetic opioids as well as heroin, cocaine, and other drugs – in the form of bulk U.S. cash. A drug distribution gang in New York or another U.S. city that owes payment to the Mexican cartel delivers the bulk cash to the Chinese broker. The Chinese broker then sells the U.S. dollars to Chinese customers who want to spend money in the U.S., acquiring real estate, paying college tuition, gambling, or making other investments. These Chinese customers pay in China for the cash they receive in the U.S. The proceeds in China are used to buy goods for export to Mexico or South America, where the goods are sold by the Chinese brokers in Mexico to recoup their funds. Some of the proceeds also are used to pay for the precursor chemicals that enable the cartels to produce more synthetic opioids. The Chinese brokers accomplish all of this with trusted electronic encrypted communications that allow all of this to happen instantly.

What makes this so effective and hard to detect?

- First, it minimizes movement of funds. Dollars don't leave the U.S., pesos don't leave Mexico, and RMB does not leave China.
- Second, it takes advantage of the huge and increasing volume of trade with China, and the existence of capital controls within China, by ensuring a constant stream of customers and making it harder to separate legitimate from illegitimate transactions.
- Third, it uses technology to its advantage, advertising the sale of dollars in Internet chat rooms and communicating primarily via WeChat, an encrypted network that is resistant to surveillance by U.S. law enforcement and that facilitates speed and trust within the Chinese organized crime network.

While the threat posed by collaboration between Chinese and Mexican TCOs is real and growing, more can be done to combat it. More investigative resources such as translators, data scientists and experienced targeting analysts will enable law enforcement to have the tools needed to detect and investigate these networks where they operate. Both the Trump and Biden administrations have authorized imposition of sanctions for participants in the global trade of fentanyl and synthetic opioids. Recent sanctions on chemical brokers in China for precursor chemicals and Mexican suppliers of synthetic opioids are an encouraging development, but further investments in the sanctions program along the lines of the effective sanctions program targeting those involved in Russian aggression against the Ukraine, would help address the threat. Additional investigative tools and rules addressing this money laundering scheme also can play an important role.

In the private sector, where I now work for Nardello & Co., the global investigative firm, I am also seeing greater awareness by the business community that it needs to understand this emerging threat and develop tools to address it. More investments in training and detection will facilitate private-sector organizations' compliance with anti-money laundering laws, help protect the integrity of the financial system, and help reduce the flow of dangerous synthetic opioids into the United States.

Congress can play a vital role by providing resources, incentives, and authority for the government and the private sector to work together to combat this threat.

Thank you for the opportunity to speak with you about this important issue.