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United States Senate Caucus on International Narcotics Control

“Addressing the Financing that Fuels the Illicit Global Drug Trade”

Tuesday, April 30, 2024

Statement of Kemp L. Chester

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Chairman Whitehouse, Co-Chairman Grassley, and Members of the Caucus, thank you for the opportunity to testify today on the key role money laundering organizations play in the global illicit drug supply chain, as well as the Biden-Harris Administration’s work to commercially disrupt the entirety of this global criminal enterprise. On behalf of Dr. Gupta, the Director of National Drug Control Policy, I appreciate the opportunity to discuss the bold actions the Administration is taking to prevent more Americans from losing their lives to these dangerous drugs, and hold accountable those who produce them and profit from the suffering they cause. I am also pleased to join my colleagues from the Departments of Homeland Security, the Treasury, and Justice, who are our partners in implementing the *National Drug Control Strategy*, and in keeping our country and our communities safe.

Every five minutes around the clock, someone in the United States dies from a drug overdose. The majority of these deaths are caused by illicit drugs, such as clandestinely manufactured fentanyl, methamphetamine, and cocaine,<sup>1</sup> which are often used in combination with each other or adulterated with other drugs like xylazine. The Biden-Harris Administration is tackling – head on – the most complex and dynamic drug trafficking environment in history, while addressing longstanding structural factors that have limited access to life-saving public health interventions in the past. The work before us is important; we must disrupt the global illicit drug supply chain, and with equal energy and determination, we must ensure people get the support they need so we can beat this epidemic, build strong and resilient communities, and save lives.

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<sup>1</sup> Centers for Disease Control and Prevention, National Center for Health Statistics. Drug Overdose Deaths in the United States, 2001–2021. <https://www.cdc.gov/nchs/products/databriefs/db457.htm>; Kariisa M, O’Donnell J, Kumar S, Mattson CL, Goldberger BA. Illicitly Manufactured Fentanyl–Involved Overdose Deaths with Detected Xylazine — United States, January 2019–June 2022. *MMWR Morb Mortal Wkly Rep* 2023;72:721–727. [https://www.cdc.gov/mmwr/volumes/72/wr/mm7226a4.htm?s\\_cid=mm7226a4\\_w](https://www.cdc.gov/mmwr/volumes/72/wr/mm7226a4.htm?s_cid=mm7226a4_w).

While the most recent provisional data shows that drug-involved deaths at the national level have levelled off, we have much more work to do.<sup>2</sup> Two in every three drug overdose deaths now involve synthetic opioids, like fentanyl.<sup>3</sup> This increasingly lethal drug market means that an overdose is more likely to be fatal than ever before. In 2010, there were 20 nonfatal overdoses for each fatal overdose. In 2020, only 10 nonfatal overdoses occurred for each fatal overdose.<sup>4</sup> This means more people are dying from an overdose before first responders can administer lifesaving care.

These are heartbreaking numbers, which is precisely why ending the opioid and overdose epidemic is a key pillar of the President’s Unity Agenda for the Nation. The President has called upon us to reduce the number of drug overdose and poisoning deaths, put high-quality public health services within reach for everyone who suffers from a substance use disorder, and disrupt the global illicit drug production supply chain that brings these drugs across our borders, into our communities, and harms our loved ones. Given that nearly 49 million Americans, or 17 percent of our population, currently suffer from a substance use disorder of some kind,<sup>5</sup> this is not only an important task; it is our fundamental calling as a government and a nation.

This Administration is delivering on unprecedented actions that are saving lives. We have made naloxone more available than ever before and are working to make it even more accessible and affordable to every American who has the potential to save a life. We have removed historic barriers to drug treatment and are working to make it available to everyone who is ready for it. We have dedicated historic funding to law enforcement at the federal, state, local, Tribal, and

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<sup>2</sup> Centers for Disease Control and Prevention, National Center for Health Statistics. National Vital Statistics System, Provisional Mortality on CDC WONDER Online Database. Data are from the final Multiple Cause of Death Files, 2018-2021, and from provisional data for years 2022-2023, as compiled from data provided by the 57 vital statistics jurisdictions through the Vital Statistics Cooperative Program. Accessed at <http://wonder.cdc.gov/mcd-icd10-provisional.html> on Apr. 16, 2024.

<sup>3</sup> Spencer MR, Garnett MF, Miniño AM. Drug overdose deaths in the United States, 2002–2022. NCHS Data Brief, no 491. Hyattsville, MD: National Center for Health Statistics. 2024.

<sup>4</sup> Casillas SM, Pickens CM, Tanz LJ, et al. Estimating the ratio of fatal to non-fatal overdoses involving all drugs, all opioids, synthetic opioids, heroin or stimulants, USA, 2010–2020. *Injury Prevention* 2024;30:114-124.

<sup>5</sup> Substance Abuse and Mental Health Services Administration. (2023). Key substance use and mental health indicators in the United States: Results from the 2022 National Survey on Drug Use and Health (HHS Publication No. PEP23-07-01-006, NSDUH Series H-58). Center for Behavioral Health Statistics and Quality, Substance Abuse and Mental Health Services Administration. <https://www.samhsa.gov/data/report/2022-nsduh-annual-national-report>.

territorial levels. And we are continually improving our ability to target drug producers and traffickers, and deny them the profits that motivate them, along with the operating capital they need to sustain their illicit business. It is on this last point that I would like to focus my testimony today.

### ***The Global Illicit Drug Supply Chain***

There was a time, not very long ago, that drug production was limited to processing poppy, harvesting coca, or manipulating over-the-counter pharmaceuticals with crude chemicals to make methamphetamine. Those finished drugs were moved through a hierarchical drug trafficking organization to street-level retailers, and eventually sold via face-to-face cash transactions on a street corner somewhere in the United States, providing the dealer immediate liquid assets that are almost impossible to track.

While this structure still exists, today it has been joined by a synthetic opioid production and supply chain that is, in essence, a global business enterprise that demonstrates access to huge capital resources, conducts routine collaboration among raw material suppliers across international borders, uses advanced technology to fund and conduct business, and possesses the capacity for product innovation and strategies to expand markets.

These synthetic opioid producers and traffickers operate as free-riders on the back of the 21<sup>st</sup> century global economy that moves products, ideas, and money across borders with incredible speed, and they exploit this legitimate commercial structure to sustain and enhance their illicit business. This includes key activities such as the provision of precursor chemicals, some of which are unregulated and can be shipped in plain sight around the world; the sale and purchase of pill presses, die molds, and encapsulating machines used to create counterfeit pills; physically dislocated payments that move funds across borders; and the internet-based sales of raw materials and finished drugs using both fiat and cryptocurrency.

We find ourselves in the midst of a strategic transition between these two eras, where the cultivation and production of large volumes of plant-based drugs like heroin and cocaine has not ended, but the era of small volume, high-potency, synthetic drug production is already underway. And one of the defining features of this globalized drug trade is the changing landscape of illicit

finance, which presents new and constantly adapting challenges to our efforts to disrupt the determined and profit-seeking business people who drive the illicit drug supply chain.

Drug producers and traffickers exploit legitimate financial institutions and processes to launder and move money, undermining the integrity of the very international financial system we all rely upon for our national security and economic prosperity. Ensuring our safety and maintaining our prosperity in this dynamic drug environment requires increased effort, a more sophisticated approach, better use of the tools available to us, and the application of new tools we have not traditionally employed against this problem.

### ***Money Laundering and Illicit Finance***

The illicit financial aspect of this global illicit business generally has the same two features as any market enterprise: wealth and capital. Wealth is what drives the business of drug trafficking, and capital is what sustains it.

The global business of illicit drug production and trafficking moves in one direction, toward expanded markets and increased profits. The drug producers and traffickers of today are in the continual pursuit of lower production costs, the widest possible customer base, a reduced risk of detection and interdiction, and maximum profits. Synthetic drugs check all those boxes: they can be produced at much lower upfront cost, can be pressed into counterfeit pills that can be sold to witting and unwitting customers alike, and their potency allows them to be moved in much smaller and hard-to-detect amounts to be sold for substantial profits.

However, operating on this global scale requires an extensive support structure for the acquisition of raw materials such as precursor chemicals or pill-making machinery; the clandestine manufacture of the drugs themselves; the movement and storage of the drugs; the marketing, sale, and purchase of the finished product; and the delivery to the purchaser. All of this demands a near constant infusion of operating capital, and, therefore, the transfer of funds across borders with speed and efficiency.

Drug producers and traffickers continually modernize their methods for moving their illicit proceeds, taking advantage of emerging technologies and techniques that allow them to circumvent banking regulations and anti-money laundering laws. Money laundering organizations based in the People's Republic of China (PRC) have emerged as the professional

money launderers of choice for Mexican drug trafficking organizations (DTOs) seeking to move their funds around the world. Strict capital flight polices implemented by the PRC have contributed to the increased use of the Chinese underground banking system and the services offered by PRC-based money laundering organizations that allow Mexico-based DTOs access to Chinese-owned businesses and financial accounts to facilitate money laundering.

While bulk cash smuggling, trade-based money laundering, and the exploitation of financial institutions are the most prevalent methods for moving value, DTOs also use virtual currencies to purchase raw materials and accept payment for illicit drugs, often those sold online or through social media platforms. Professional money launderers also use virtual currencies to transfer proceeds across borders on behalf of DTOs.

The 21<sup>st</sup> century illicit drug supply chain is a multinational, dynamic, and complex problem that includes public and private entities, the architecture of legitimate commerce, and the exploitation of the very same finance and banking systems the global economy relies upon, to fuel illicit proceeds and facilitators. Therefore, a key focus of the Administration's strategic approach to disrupt this supply chain and constrain transnational organized crime is to go after the financial mechanisms and individuals who enable it.

### ***The Administration's Strategic Approach***

Addressing the most dynamic and complex drug production and trafficking environment in our history demands strong White House leadership to ensure unity of purpose and effort, durable bilateral relationships with key countries who can help in our global fight against this threat, and United States leadership at the global level to address this global problem.

More than a year ago, the Biden-Harris Administration announced its *Strengthened Approach to Crack Down on Illicit Fentanyl Supply Chains*, a whole-of-government approach to save lives by disrupting the trafficking of illicit fentanyl and its precursors into our communities. We call this approach "commercial disruption," and it focuses and synchronizes the totality of our national capability against criminal facilitators and enablers, and attacks key vulnerabilities in the global illicit synthetic drug supply chain to maximize our impact across drug producers' and traffickers' spectrum of capabilities.

Commercial disruption is a fundamental change in the United States' approach to global drug production and trafficking; through it we are targeting not only the finished illicit drugs and those who sell them – along with their raw materials and the commercial shipping that move these items around the world – but also the flow of financial benefits and operating capital to individuals and groups directly and indirectly involved in the illicit drug enterprise. We must make it more costly, more time-consuming, more difficult, and less profitable to engage in a business where very few reap obscene profits from the suffering of so many.

Targeting these critical elements allows us to close the gaps illicit drug producers and traffickers currently exploit, disrupt their production and supply chains, and reduce the availability of these dangerous substances in our communities.

As part of our efforts to disrupt the illicit proceeds flowing back to drug producers and their facilitators, the Office of National Drug Control Policy (ONDCP) brings together interagency partners to share information, maximize our own capabilities, and attack the vulnerabilities of this global illicit enterprise. For example, the High Intensity Drug Trafficking Areas (HIDTA) Program is one of our most impactful investments. These multi-jurisdictional task forces bring together the resources, expertise, and authorities of federal, state, local, Tribal, and territorial agencies to identify and target drug traffickers and their facilitators, and use well-established systematic approaches to disrupt the illicit financial activities of drug traffickers over time.

President Biden's *Executive Order on Imposing Sanctions on Foreign Persons Involved in the Global Illicit Drug Trade* is a generational leap forward in our capability to go after the financial enablers of the drug trade and not just its kingpins. Because of this, we are better poised to target the facilitators, financiers, suppliers, and other individuals and entities enabling the production, movement, trafficking, and profiteering from illicit drugs. Executive Order (E.O.) 14059 provides the Department of the Treasury with enhanced authorities to target and disrupt those across the drug ecosystem and to safeguard the United States' financial system from use and abuse by those involved in the illicit drug trade. Currently, there are 293 individuals and entities sanctioned by Treasury pursuant to E.O. 14059, including 140 fentanyl-related designations. The majority of these designations are related to Mexico and the PRC.

The vast majority of the physical and virtual terrain on which drug traffickers operate, such as the internet, open social media platforms, eCommerce sites, express consignment and other cargo shippers, money services businesses, cryptocurrency exchanges, legitimate chemical suppliers, pill press and die manufacturers, and logistics companies, are private sector entities. Some of them may have no idea they are a constituent part of an illicit business enterprise. An integral part of commercial disruption is developing stronger public-private partnerships and increasing scrutiny over social media and online illicit drug advertising and sales, enhancing cooperation with express consignment carriers and other commercial trade industry partners, and disrupting drug money laundering and funds transfers through increased transparency and accountability.

In working with the commercial sector, we must raise a sophisticated awareness of this environment with private entities around the world and engage with them in a full partnership so we can sift out the unwitting from the knowing and intentional actors here in the United States and abroad, focusing our efforts on the latter in a more precise way.

### ***Key Bilateral Relationships***

A significant aspect of addressing this challenge is maintaining close and mutually beneficial partnerships with key countries that not only play a role in preventing the global proliferation of these dangerous synthetic drugs, but will also play a role in advancing our global efforts to disrupt it.

We have redoubled our efforts with the Government of Mexico, working alongside them to further address illicit fentanyl production and trafficking. President Biden has stressed to President Lopez Obrador the importance he places on this issue, and our two governments are working more closely than ever on the fentanyl problem to establish tangible goals, assess progress, and follow through on mutual commitments. Given our shared border, our two-hundred-year bilateral relationship, and the negative effects that cartels in Mexico have on both sides of the border, it is vitally important that our bilateral relationship be characterized by mutual respect and a sense of shared responsibility to address the shared threat of drug and weapon trafficking and transnational organized crime.



As the United States leads the global effort to disrupt the production and trafficking of these drugs, we welcome the PRC in joining us. Years of seizure and law enforcement data show that the PRC has been a major source for precursor chemical shipments, pill presses, and die molds entering the Western Hemisphere. This is an issue in which United States and PRC interests align, and while the commitment reached by President Biden and President Xi last November to reestablish bilateral counternarcotics cooperation led to some initial positive actions by the PRC, addressing the grave and growing problem of illicit synthetic drug production and trafficking at the global level will require continued engagement, tangible cooperation, and sustained progress over time.

During India's state visit to the United States less than a year ago, President Biden and Prime Minister Modi committed to work toward a broader and deeper bilateral counternarcotics relationship. We are expanding cooperation and collaboration to disrupt the illicit production and international trafficking of illicit drugs, including synthetic drugs, such as fentanyl and amphetamine-type stimulants, and the illicit diversion of their precursors within India's pharmaceutical industry. Through this partnership, our countries can work together to prevent and treat illicit drug use, address workforce shortages and skilling requirements, and develop a secure, resilient, reliable, and growing pharmaceutical supply chain as a model for the world.

A foundational element of all these bilateral relationships is adapting and modernizing our collective capability to better understand the illicit financial structures that allow drug producers and traffickers to monetize their products, conceal their ill-gotten gains, fund their businesses, and move their profits and operating capital around the world.

### ***United States Global Leadership***

As important as our bilateral relationships are, this is a global problem and global problems require global solutions. By demonstrating the United States' leadership at the regional and multilateral levels, we can advance our efforts to disrupt the global illicit drug supply chain and galvanize international efforts to address the collective threat it presents.

With the United States' leadership, the international community has successfully scheduled 21 precursor chemicals with global partners through the United Nations' (U.N.) Commission on Narcotic Drugs (CND)—including five fentanyl precursors proposed by the

United States. International control of chemicals helps to disrupt the illicit drug supply chain because parties to the U.N. drug conventions must take domestic action to control these substances, which allows domestic law enforcement agencies to investigate and prosecute cases involving illicit manufacturing and trafficking of controlled substances and their precursors.

Notably, this year for the first time, CND members voted to proactively control a number of chemicals likely to be used in the manufacture of illicit synthetic drugs. This forward-leaning approach, led by the United States, addresses the problem of criminal groups substituting one precursor chemical for another immediately after an international control action is taken and will allow the international community to more quickly adapt to actions drug producers and traffickers take to avoid detection and prosecution.

We have also led in raising global awareness of the nature of the global illicit synthetic drug supply chain and are working with our international partners to enact commonsense and responsible measures to disrupt the exploitation of legitimate commerce. Less than a year ago, the United States launched the Global Coalition to Address Synthetic Drug Threats. Today, the coalition brings together 151 countries and 13 international organizations committed to preventing the illicit manufacture and trafficking of synthetic drugs; detecting emerging threats and patterns of use; and advancing public health interventions and services to prevent and reduce drug use, save lives, and support recovery for people who use drugs.

This first-of-its-kind global coalition works every day to develop concrete solutions, drive national actions, and leverage the collective effort of like-minded countries that agree that countering illicit synthetic drugs must be a global policy priority. This includes commonsense measures to ensure our domestic and international financial systems are postured to detect and disrupt their exploitation from illicit drug producers and traffickers.

### ***Conclusion***

This Caucus was established four years before ONDCP, and over the past four decades has led the Congress through an ever-evolving drug production and use landscape. Today, as we navigate the transition from an illicit drug environment dominated by plant-based drugs to one dominated by highly potent and deadly synthetic drugs, the partnership between the Caucus and the Administration is more important than ever. The Administration's leadership on this critical

issue, and the close collaboration among partners within the United States and around the world, is made stronger by the work of the Members of this Caucus and your Congressional colleagues. Together, we have kept this issue at the forefront of our national consciousness and are changing the trajectory of this complex and dynamic challenge. We must maintain the pressure on those who prey on and profit from vulnerable Americans, utilizing every tool at our disposal. And we must make the cost of doing business for them unbearable. We have much work ahead of us and your partnership will be as critical in the months ahead as it has been thus far.

On behalf of the hardworking team of ONDCP, I would like to thank the Caucus and your Congressional colleagues for your foresight and leadership on this incredibly difficult issue. Ending the opioid and overdose epidemic demands the best efforts of us all: agencies across the federal government; states, Tribes, and local communities; private sector partners and stakeholders; and the Congress, which has time and again demonstrated a strong spirit of bipartisanship on this issue.

ONDCP looks forward to continuing its work with this Caucus, the Congress, and our other partners to disrupt the production and trafficking of these dangerous drugs, prevent drug overdoses, and save lives.