

**Chinese Money Laundering Organizations: Cleaning Cartel Cash  
Senate Caucus on International Narcotics Control hearing**

**April 30, 2024**

**Under Secretary for Terrorism and Financial Intelligence Brian E. Nelson  
U.S. Department of the Treasury  
Written Testimony**

**Introduction**

Chairman Whitehouse, Co-Chairman Grassley, and Distinguished Members of the Caucus, thank you for the invitation to speak today about countering an important money laundering threat related to narcotics trafficking: Chinese money laundering organizations (CMLOs). I am pleased to be here alongside my interagency colleagues with whom we work closely on our counter-narcotics and counter-illicit finance priorities. This is a timely hearing as I visited Puerto Rico last week where I spoke with local law enforcement and financial sector regulators on how we can enhance our partnership to combat narcotics trafficking and other priority money laundering and terrorist financing threats.

Today, I hope to discuss Treasury's understanding of the threat posed by CMLOs, how Treasury uses its authorities to combat CMLO activities, including through support to our law enforcement partners, and how Treasury engages our foreign counterparts to identify opportunities to partner to combat these threats. Finally, I will describe how Treasury is advancing regulatory reform efforts to improve the transparency of our financial system to better protect it from abuse by illicit actors, including CMLOs and narcotraffickers.

**Risks and Threats**

Since 2018, Treasury has identified the growing prevalence of CMLOs in laundering the proceeds of drug trafficking. In successive National Money Laundering Risk Assessments, published in 2018, 2022, and 2024, we discussed how CMLOs operate and why they are attractive for a variety of transnational criminal organizations (TCOs), including Mexico-based drug cartels.

CMLOs offer several advantages for illicit actors. These money launderers are insular, decentralized, and rely on interpersonal relationships among the Chinese diaspora to conduct business, making them difficult for law enforcement to penetrate. They leverage an international symbiotic relationship between the demand by People's Republic of China (PRC) nationals for U.S. dollars, and TCOs' ability to supply bulk U.S. dollars located in the United States. CMLOs are able to move value across borders without needing to move physical cash or make payments across those borders, or even use the formal financial system, which presents challenges for detection and disruption.

## **Treasury Authorities**

Treasury combats CMLO activities through analyzing illicit financing threats, crafting policy solutions that leverage our wide-ranging authorities, implementing actions to disrupt these networks, and focusing on international engagement to disrupt CMLO activities.

Treasury's Financial Crimes Enforcement Network (FinCEN) focuses on identifying and then disrupting CMLO activity in the United States through the analysis of Bank Secrecy Act (BSA) data. FinCEN, in coordination with other interagency partners, also provides direct support to U.S. law enforcement agencies investigating CMLOs and their affiliates which not only further highlights CMLO tactics, techniques, and procedures, but also potential points for interdiction. Treasury also leverages its unique expertise and capabilities to interdict and disrupt the illicit financial networks upon which these drug trafficking networks rely. We do this by targeting the financial supply chain facilitating the trafficking of illicit fentanyl and other deadly drugs, through our sanctions authorities through Treasury's Office of Foreign Assets Control (OFAC). These actions cut off illicit actors from the U.S. financial system and shed light on their activity.

## **Partnership with Law Enforcement**

Since 2016, FinCEN has been working directly with the Drug Enforcement Administration (DEA) to combat and disrupt the illicit fentanyl precursor supply chain between China and the United States, and more recently China and Mexico. FinCEN provides the tactical and strategic financial and network analysis in support of DEA operations and investigations involving China-based chemical companies, brokers, and the identified entities and networks. This collaboration produces results. For example, in October 2023, FinCEN collaborated with DEA in support of eight indictments announced by the Department of Justice (DOJ), charging China-based companies and their employees with crimes relating to illicit fentanyl and methamphetamine production, distribution of illicit synthetic opioids, and sales resulting from precursor chemicals. These indictments were complemented by OFAC sanctions against 28 individuals and entities to disrupt networks responsible for manufacturing and distributing illicit drugs.

In another case, FinCEN, DEA, and Homeland Security Investigations collaborated as part of a multi-agency effort to investigate the Zhang Jian drug trafficking organization (DTO) that ultimately led to Zhang and members of his organization being indicted by DOJ in 2017 and 2018 for conspiracy to distribute illicit fentanyl and fentanyl analogues in the United States, amongst other crimes. According to the indictment, Zhang's organization would send orders of fentanyl or other illicit drugs, or the pill presses, stamps, or dyes used to shape fentanyl doses, to customers in the United States through mail or international delivery services. Ultimately, this operation led to 34 defendants being charged and over \$1 million in cash and property being forfeited. In July 2023, three members of the DTO were sentenced to a combined 73 years in prison for their roles in this operation. Treasury also sanctioned Zhang and four additional Chinese nationals working on his behalf pursuant to the Foreign Narcotics Kingpin Designation

Act. Treasury will continue to disrupt the illicit fentanyl supply chain and the main cartels responsible for trafficking narcotics into the United States.

Beyond the day-to-day relationship supporting specific law enforcement investigations, FinCEN prepares analytical reports derived from analysis of tens of thousands of suspicious activity reports (SARs) and other reports filed by U.S. financial institutions under the BSA. Recent FinCEN analysis of BSA data has identified CMLOs' increasing involvement in domestic and global money laundering activity associated with drug trafficking, which is useful lead information for law enforcement.

### **International Engagement**

More broadly, advancing Treasury's efforts to sever the illicit precursor supply chain requires strong coordination with foreign counterparts. For that reason, we have prioritized direct engagement with the PRC to explore areas where we can cooperate on counternarcotics efforts and stem the flow of illicit fentanyl precursors and other synthetic opioids. For example, Treasury participated in the inaugural meeting of the U.S.-PRC Counter Narcotics Working Group (CNWG) in Beijing in January 2024 to engage the PRC directly on the misuse of precursor chemicals and equipment to manufacture illicit drugs. At the CNWG, we pressed our PRC counterparts to investigate a group of PRC entities and individuals recently designated by Treasury for illicit fentanyl precursor production and sale, highlighting their use of virtual currency which may also contravene the PRC's own domestic laws. In addition to the CNWG, Secretary Yellen established a new joint Treasury-People's Bank of China (PBOC) Cooperation and Exchange on Anti-Money Laundering (AML) on her trip in April to enable us to better share best practices and information to address illicit financial activity in our respective financial systems.

We also maintain a close partnership with Mexico to combat narcotics trafficking and other priority illicit financial activities. Last December, I joined Secretary Yellen in Mexico where we engaged at the highest levels on strengthening information sharing to combat illicit finance. Information sharing is crucial to identify illicit finance threats, and we are in regular dialogue with Mexican and private sector counterparts on further expanding both government to government and bank to bank information sharing to enhance our collective understanding of cross-border illicit finance threats, such as illicit fentanyl manufacturing and trafficking.

### **Domestic Regulatory Reform**

Treasury is also working to update our domestic frameworks to counter money laundering through the abuse of opaque legal entities and through untraceable real estate transactions. Treasury is hard at work implementing the Corporate Transparency Act, which requires certain corporations, LLCs, and similar entities formed in the United States, and foreign entities registered to do business in the United States, to report their beneficial owners to FinCEN. Reporting companies created or registered this year have to submit a beneficial ownership

information report (BOIR) to FinCEN within ninety days, while reporting companies created or registered before this year have until January 1, 2025 to submit their BOIR to FinCEN.

The increasing transparency of legal entities in the United States, and the increasing expectations of transparency in the financial services and larger business community, will make it harder for criminals to hide and evade justice.

In addition, in February, Treasury published a notice of proposed rulemaking that would increase transparency in all-cash and other non-financed transfers of residential real estate to certain legal entities and trusts. This would reduce criminals' – including the international and domestic drug trafficking organizations which often favor this money laundering tactic – ability to anonymously launder funds through residential real estate purchases in the United States.

Treasury is hard at work, in close cooperation with the interagency, to combat the threats posed by CMLOs and broader illicit fentanyl trafficking networks. I want to close by thanking the Caucus for its support and its collaborative work with Treasury. I look forward to taking your questions.