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1 CHINESE MONEY LAUNDERING ORGANIZATIONS: CLEANING CARTEL CASH

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Tuesday, April 30, 2024

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U.S. Senate

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Senate Caucus on International Narcotics Control

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Washington, D.C.

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The committee met, pursuant to notice, at 2:01 p.m., in

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Room 608, Dirksen Senate Office Building, Hon. Sheldon

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Whitehouse, chairman of the committee, presiding.

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Present: Senators Whitehouse [presiding], Hassan,

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Grassley, and Cornyn.

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2            The Chairman. I am delighted to call this hearing of  
3 the Senate Caucus on International Narcotics Control to  
4 order. We have some terrific witnesses with us today.  
5 Three of four of whom are present, but the other promises  
6 he's two minutes out. And since he's not a Senator, I might  
7 believe him. When Senators say that they're two minutes  
8 out, you know it's more like 20.

9            In fact, I think the record was by set by Ted Kennedy  
10 when he was called by the cloak room and told he needed to  
11 get to vote. He said, "I'm at the airport." What he didn't  
12 tell them, it was the Boston Airport.

13           [Laughter.]

14           The Chairman. Never believe a Senator about when he is  
15 showing up is the motto. So, thank you all for being here.

16           Illicit narcotics, as we know, often come into the  
17 United States from other places by way of complex supply  
18 chains. Cocaine from South America, or heroin from  
19 Afghanistan, and Asia's Golden Triangle. Today's scourge,  
20 fentanyl, usually begins in Chinese chemical factories  
21 before passing through Mexico on the way to the United  
22 States.

23           Fentanyl and other synthetic opioids can be made just  
24 about anywhere by just about anyone with only a few chemical  
25 ingredients, making interdiction and enforcement efforts

1 difficult. ~~A~~ ~~a~~ single kilogram of fentanyl can produce more  
2 than one million counterfeit pill dosages and generate  
3 millions of dollars in revenue. So, an intercepted package  
4 or seized supply is just a cost of doing business for  
5 cartels.

6 A lot of people are dying from fentanyl overdose. 436  
7 died of drug overdose in Rhode Island in 2022 alone. So, we  
8 need to supplement interdiction efforts against fentanyl  
9 with solutions to dismantle the way cartels operate. For  
10 every gram of fentanyl sold into America, there's a chemical  
11 supply chain. For every dollar of illicit fentanyl sold in  
12 America, there's a dollar in revenue to get back to the  
13 cartels.

14 By attacking the supply chain and the money flow, we  
15 can supplement interdiction efforts. In particular, we must  
16 ensure that dirty money cannot be hidden in our country on  
17 its way back into the pockets of cartels, terrorists, and  
18 other transnational criminals. That is why the Corporate  
19 Transparency Act that Senator Grassley and I passed into law  
20 to shed some light into shell corporations was so important.

21 The revenue side, like the supply chain, is an  
22 international business. Chinese money laundering  
23 organizations have gotten very good at shielding ill-gotten  
24 gains. These organizations launder cartel cash quicker and  
25 cheaper than competitors, often with a money-back guarantee.

1 Treasury's 2024 National Money Laundering Risk  
2 Assessment identifies Chinese money laundering organizations  
3 as some of the worst money laundering actors, "Enabling  
4 Mexican cartels to seamlessly exchange U.S. dollars derived  
5 from the sale of narcotics for Mexican Pesos."

6 Chinese money laundering organizations enrich drug  
7 trafficking organizations, and in turn, finance the  
8 production of fentanyl. It's a cycle that we need to  
9 disrupt. The U.S. and our international partners have been  
10 slow to adapt to this threat. ~~Globally,~~ ~~less~~ less than one  
11 percent of illicit financial flows are confiscated each year  
12 according to the United Nations.

13 At our last hearing, a retired DEA agent told us that  
14 less resources are dedicated to money laundering  
15 investigations today than 20 years ago. We can and must  
16 turn that trend around. I've introduced a bipartisan bill  
17 to establish a cross border financial crime center within  
18 Homeland Security to coordinate federal financial crimes,  
19 investigations, and information related to the U.S. border.

20 This center would bolster the United States ability to  
21 take on, CMLO, Chinese money laundering organization  
22 networks and should be included in this year's defense  
23 package. Treasury under our Corporate Transparency Act, has  
24 established a beneficial ownership registry, which will help  
25 law enforcement identify who's behind anonymous shell

1 corporations used in criminal schemes. Treasury is also  
2 addressing money laundering vulnerabilities in the  
3 investment and residential real estate sectors, and I hope  
4 will soon cover the commercial real estate sector as well.

5       Unfortunately, there are licensed white collar  
6 professionals in America's legal accounting and investment  
7 industries who enable transnational criminals. My ENABLERS  
8 Act would place common-sense guardrails on American  
9 professionals to ensure that cartels, terrorists, and  
10 kleptocrats cannot find refuge in our legitimate economy.

11       Treasury, DOJ, and other federal agencies on the front  
12 lines also need resources against financial crime and  
13 cartels, which is why I'm co-leading the annual FinCEN  
14 Appropriations Letter with co-Chair Grassley. I welcome  
15 budding signs of cooperation from Mexico and China.

16       Treasury Secretary, Yellen, just announced a new U.S.-  
17 China working group on illicit finance. Co-Chair Grassley  
18 and I sent a letter about this to the Chinese, and we didn't  
19 get much of a response. So, this is an improvement. I  
20 encourage this initiative and I hope for concrete outcomes.

21       But let me be clear, the urgency of the fentanyl crisis  
22 demands that we not solely depend on the goodwill of other  
23 countries. We can and must take steps here at home to make  
24 our financial sector more transparent, hold money launderers  
25 and complicit professionals to account, and run enforcement

1 efforts hard against the revenue and supply chain side of  
2 the cartel's deadly business.

3       And with that, I recognize my distinguished co-Chair,  
4 Senator Grassley.

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1 STATEMENT OF SENATOR GRASSLEY

2 Senator Grassley. Thank you very much, Senator  
3 Whitehouse, for holding this very important hearing and  
4 thanks for our witnesses for being here, and more  
5 importantly, whatever time you had to put in to prepare for  
6 this, we appreciate it.

7 This hearing not only presents an opportunity to  
8 discuss what we should enact, but also legislation we should  
9 not enact as we want to handle and get a very big handle on  
10 Chinese money laundering organizations. I want to highlight  
11 a troubling example that should caution Congress to consider  
12 carefully legislative proposals easing money laundering  
13 laws.

14 On Sunday evening ~~and~~in late November, 2022, Chen Wu  
15 charged into a garage located on a fraudulently registered  
16 medical marijuana farm in Kingfisher County, Oklahoma.  
17 Inside, four workers were packaging marijuana, supervised by  
18 their boss. Like Wu, they were all from China. Wu waved a  
19 nine millimeter pistol as he entered the garage and demanded  
20 back pay. He fired a warning shot into his boss's knee and  
21 told the group they had half an hour to pay him. If they  
22 didn't, he'd kill them all. And that's exactly what Wu did.

23 The following video of one minute length shows  
24 Kingfisher County Sheriff's responding to the scene.

25 [Video Presentation.]



1           Senator Grassley. Well, I want to thank Kingfisher  
2 County Sheriff's Office for responding to a dangerous  
3 situation, and law enforcement in general, for doing the  
4 work.

5           According to Oklahoma law enforcement, 2,000 of the  
6 3,000 licensed marijuana farms flagged for suspicious  
7 activity over the last year had a Chinese connection  
8 providing funding, labor, or both.

9           This illegal industry has grown up around China's  
10 capital flight laws, which kept the amount of money  
11 currency, specifically that Chinese nationals are allowed to  
12 transfer abroad each year. This is the same driver behind  
13 Chinese money laundering organizations.

14           There's been a lot of debate about whether state  
15 sanctioned marijuana businesses should be able to access the  
16 U.S. banking system. The proposal on the table assume that  
17 state and local regulations will hold back organized crime.  
18 The Kingfisher County murders show us that that assumption  
19 is just plain wrong.

20           If this legislation passes Chinese money laundering  
21 organizations will have an additional avenue for clean  
22 cleaning dirty money. They can simply hand it off to  
23 Chinese criminal organizations, fraudulently running state-  
24 sanctioned marijuana farms for introduction into the U.S.  
25 banking system. According to the Treasury Department,

1 Chinese money organizations are "becoming one of the most  
2 significant money laundering threat actors facing the U.S.  
3 financial system."

4 Now is the time to make it harder for criminals to move  
5 dirty money and buy assets in the United States, not making  
6 it easier. This complex money laundering problem requires  
7 well-thought-out solutions, and I look forward to discussing  
8 those solutions this very day with this very panel. Thank  
9 you.

10 The Chairman. Thank you. And I know I speak for  
11 Senator Grassley and all of our colleagues on the caucus  
12 watching this distinguished panel of law enforcement  
13 officers to offer my condolences on the death of the deputy  
14 U.S. Marshall and the three other members of the warrant  
15 task force who were murdered.

16 And our hearts, obviously, go out to their families who  
17 are deeply grieving, and also to those officers who were  
18 wounded. We all wish them a very speedy recovery. It's a  
19 reminder today of the kind of risk that those of you in law  
20 enforcement put yourself through.

21 And I know Senator Grassley joins me in that our first  
22 witness will be Kemp Chester, the senior advisor to the  
23 Director of National Drug Control Policy. In this role, he  
24 advises on shaping policy designed to reduce the  
25 availability of all illicit or illegally trafficked drugs

1 and their precursor chemicals into the United States by  
2 disrupting their global supply chains.

3 Mr. Chester also leads the United States counter-  
4 narcotics relationships with China and India. He previously  
5 served as a U.S. Army officer for 27 years in command and  
6 staff positions around the world.

7 Brian Nelson is the U.S. Department of the Treasury's  
8 Under Secretary for Terrorism and Financial Intelligence.  
9 In this role, he leads several offices, including the Office  
10 of Foreign Assets Control, and the Financial Crimes  
11 Enforcement Network.

12 Prior to joining Treasury, Mr. Nelson was the Chief  
13 Legal Officer at the organizing committee for the 2028  
14 Olympic and Paralympic Games in Los Angeles. His previous  
15 government service includes roles as a senior policy  
16 advisor, policy chief, and general counsel in the California  
17 Department of Justice, where you oversaw key national  
18 security initiatives.

19 Ricardo Mayoral is the acting Assistant Director of the  
20 Countering Transnational Organized Crime Division for  
21 Homeland Security Investigations, where he oversees HSI-  
22 targeting of criminal organizations involved in traditional  
23 and trade-based money laundering, drug trafficking, human  
24 smuggling, and other crimes. In previous leadership roles  
25 at HSI, Mr. Mayoral oversaw international operations

1 including the transnational Criminal Investigative Unit  
2 Program, and directed HSI Global Trade and Counter  
3 Proliferation investigations.

4 William Kimbell is the Drug Enforcement  
5 Administration's Chief of Operations and Assistant  
6 Administrator for the Operations Division where he commands  
7 DEA's Global Drug Enforcement offices across 241 domestic  
8 offices, and 93 foreign offices in 69 countries, as well as  
9 DEA's Special Operations Division.

10 Mr. Kimbell previously served as the DEA's Deputy Chief  
11 of Domestic Operations. He was one of the first assistant  
12 special agents in charge for DEA's counter threat teams, and  
13 he served as a law enforcement professional for over 29  
14 years.

15 We welcome all you gentlemen here. If you don't mind  
16 making your remarks in the order of your introduction,  
17 starting with Mr. Chester. And if you could confine  
18 yourself to five minutes, your entire statement will be made  
19 a matter of the committee's record, the Caucus's record.  
20 Please proceed, Mr. Chester.

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1 STATEMENT OF KEMP CHESTER, SENIOR ADVISOR TO THE DIRECTOR,  
2 OFFICE OF NATIONAL DRUG CONTROL POLICY

3 Mr. Chester. Chairman Whitehouse, co-Chairman  
4 Grassley, and members of the caucus, thank you for the  
5 opportunity to testify today.

6 Not long ago, illicit drug production was largely  
7 limited to processing poppy, harvesting coca, or  
8 manipulating crude chemicals to make methamphetamine. The  
9 finished drugs were moved through a hierarchical drug  
10 cartel, to street level retailers, and eventually sold in  
11 face-to-face cash transactions on a street corner somewhere  
12 in America.

13 While this structure still exists, today it has been  
14 joined by a global business enterprise that manufactures,  
15 and markets potent and deadly synthetic drugs, and operates  
16 as a free rider on the back of the legitimate 21st century  
17 global economy that moves materials, products, ideas, and  
18 money across borders with incredible speed.

19 The global business of illicit drug production and  
20 trafficking moves quickly and it moves in one direction  
21 toward expanded markets and increased profits. Today's drug  
22 producers and traffickers are in the constant pursuit of  
23 lower production costs, the widest possible customer base,  
24 the reduced risk of detection and interdiction, and maximum  
25 profits.

1           Synthetic drugs check all those boxes. They can be  
2 produced with minimal upfront costs, pressed into  
3 counterfeit pills for witting and unwitting customers alike,  
4 and moved in much smaller and hard-to-detect amounts, to be  
5 sold for outsized profit.

6           One of the defining features of this globalized drug  
7 trade is its financial backbone, which presents constantly  
8 evolving challenges as drug traffickers circumvent banking  
9 regulations and anti-money laundering laws to hide their  
10 profits.

11           But while the desire for wealth is what drives the  
12 business of drug trafficking, it is the need for operating  
13 capital that sustains it. Operating on this global scale  
14 requires the acquisition of raw materials such as precursor  
15 chemicals or pill pressing machinery, the manufacturer of  
16 the drugs themselves, the marketing, sale, and purchase of  
17 the finished products, and delivery to the purchaser. This  
18 demands a steady infusion of operating capital throughout  
19 the production and supply chain, involving the movement of  
20 funds across borders with speed and efficiency.

21           More than a year ago, the administration announced its  
22 strengthened approach to crack down on illicit fentanyl  
23 supply chains. The strategic approach, which we call  
24 commercial disruption, targets key vulnerabilities in this  
25 illicit drug enterprise to disrupt its ability to operate,

1 and make the business of drug production and trafficking  
2 more costly, more time consuming, more difficult, and  
3 ultimately, less profitable.

4 This global enterprise employs thousands of brokers,  
5 facilitators, and financiers, and President Biden's 2021  
6 executive order imposing sanctions on foreign persons  
7 involved in the global illicit drug trade was a generational  
8 leap forward in our capability to go after the financial  
9 enablers of the drug trade and not just its kingpins.

10 The vast majority of the physical and virtual terrain  
11 on which drug traffickers operate to purchase their raw  
12 materials and sell their drugs involves private sector  
13 entities whose legitimate businesses are being exploited,  
14 and many of them have no idea they're a constituent part of  
15 an illicit business enterprise.

16 Internationally, a foundational element of our effort  
17 to disrupt the synthetic drug supply chain is close and  
18 mutually beneficial bilateral relationships with key partner  
19 countries who play a vital role in our efforts to halt the  
20 production and trafficking of these drugs, and hold  
21 accountable those who operate this global illicit business.

22 Criminals based in the People's Republic of China, have  
23 emerged as the professional money launderers of choice for  
24 Mexican drug traffickers seeking to move their funds around  
25 the world. Our counter narcotics relationships with Mexico,

1 the PRC, and others are instrumental in making tangible and  
2 sustainable progress toward fully addressing synthetic drug  
3 production and trafficking, and disrupting the illicit  
4 financial architecture that supports it.

5 But this is a global problem, and global problems  
6 require global solutions. And as potent as our bilateral  
7 relationships are, American leadership through the United  
8 Nations, through the global coalition to address synthetic  
9 drug threats in other forums is essential in galvanizing  
10 international efforts to confront this global challenge.

11 This caucus was established four years before ONDCP,  
12 and together we have kept the drug issue at the forefront of  
13 our national consciousness for the past 35 years. And  
14 together, we will change the trajectory of the complex and  
15 dynamic challenge we face today.

16 On behalf of Dr. Gupta, I want to thank this caucus,  
17 and your Congressional colleagues, and we look forward to  
18 continuing our work with you to end this epidemic and save  
19 American lives.

20 Thank you, and I look forward to your questions.

21 [The prepared statement of Mr. Chester follows.]

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1           The Chairman. Thank you, Mr. Chester. Under Secretary  
2 Nelson, good to have you with us.

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1 STATEMENT OF BRIAN NELSON, UNDER SECRETARY FOR TERRORISM AND  
2 FINANCIAL INTELLIGENCE, U.S. DEPARTMENT OF THE TREASURY

3 Mr. Nelson. Thank you so much. Chairman Whitehouse,  
4 Chairman Grassley, distinguished members of the committee.  
5 Thank you for the invitation to speak today about countering  
6 Chinese money laundering organizations.

7 This is a timely hearing as I just returned from Puerto  
8 Rico, where I spoke with federal law enforcement authorities  
9 and local officials on how Treasury can enhance our support  
10 to their efforts to stem the flow of narcotics into the  
11 mainland United States. I look forward to speaking with you  
12 about the risks, our authorities, and how we are working  
13 across the interagency and internationally to combat these  
14 threats.

15 Drug traffickers and bad actors, as we know, are  
16 motivated by profit. We have assessed that by charging  
17 lower fees, providing guarantees on losses, as Chairman  
18 Whitehouse said, and simplifying the money laundering  
19 process, CMLOs have become one of the most significant money  
20 laundering threats to the U.S. financial system.

21 As Chairman Grassley rightly noted, my team is actively  
22 implementing a counter fentanyl strategy to synchronize and  
23 maximize the application and impact of Treasury's wide-  
24 ranging authorities to disrupt fentanyl trafficking networks  
25 to include CMLOs.

1           We are bringing to bear our unique analytic  
2 capabilities, the disruptive impact of our sanctions and  
3 other enforcement actions, international partnerships, and  
4 systemic regulatory reforms to holistically target the  
5 illicit financial supply chain facilitating fentanyl  
6 trafficking to cut these bad actors off from the U.S.  
7 financial system.

8           I'm pleased to be here alongside my interagency  
9 colleagues with whom we work very closely. One of  
10 Treasury's top priorities is supporting our law enforcement  
11 partners counter narcotics efforts. For example, in October  
12 of 2023, Treasury designated 28 entities and individuals to  
13 amplify the financial impact of DOJ's eight indictments  
14 charging China-based companies for crimes related to illicit  
15 narcotics trafficking.

16           FinCEN and OFAC are also active participants in a  
17 number of law enforcement task force in combating narcotics  
18 traffickers and the network supporting their ability to  
19 raise and move funds to further support law enforcement  
20 efforts. FinCEN regularly prepares analytical reports  
21 derived from an analysis of tens of thousands of suspicious  
22 activity reports and other data. Recent confidential FinCEN  
23 analysis has identified CMLO typologies in granular detail  
24 to provide useful lead information to law enforcement.

25           Severing illicit precursor supply chains also, of

1 course, require strong coordination with foreign  
2 counterparts. This is why we have directly engaged with the  
3 PRC on counter-narcotics efforts such as via the U.S.-PRC  
4 Counter-Narcotics Working Group. We are leveraging this  
5 mechanism to engage PRC counterparts to take complimentary  
6 actions to maximize the impact of recent Treasury  
7 designations of PRC entities and individuals involved in the  
8 sale and production of illicit fentanyl precursors.

9 In April, Secretary Yellen established a new Treasury  
10 People's Bank of China cooperation and exchange on anti-  
11 money laundering to enable us to better share information to  
12 address illicit financial activity in our respective  
13 financial systems. We also maintain a close partnership  
14 with Mexico and we continue to build on Secretary Yellen's  
15 trip to Mexico, where she secured high level political  
16 support to further enhance this partnership to bolster our  
17 collective understanding of cross-border illicit finance  
18 threats.

19 Finally, Treasury is also working to update our  
20 domestic frameworks to make it harder for illicit actors  
21 like CMLOs to hide and evade justice. This includes  
22 implementing important provisions in the Corporate  
23 Transparency Act, as Chairman Whitehouse noted. These  
24 transparency measures including reforms to the real estate  
25 and investment advisor sectors will bolster our ability to

1 protect the U.S. financial system from abuse by CMLOs and  
2 other illicit actors.

3 I just want to close by thanking the men and women of  
4 TFI for their incredible work to combat these threats and  
5 protect our national security. I would also like to thank  
6 the caucus for its support and its collaborative work with  
7 Treasury. I look forward to taking your questions.

8 [The prepared statement of Mr. Nelson follows.]

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1           The Chairman. Thank you very much, Under Secretary  
2 Nelson. We turn now to acting Assistant Director Mayoral.

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1 STATEMENT OF RICARDO MAYORAL, ACTING ASSISTANT DIRECTOR FOR  
2 COUNTERING TRANSNATIONAL ORGANIZED CRIME,  
3 HOMELAND SECURITY INVESTIGATIONS

4 Mr. Mayoral. Good afternoon. Chairman Whitehouse, co-  
5 Chairman Grassley, and distinguished members, thank you for  
6 the opportunity to appear before you today to discuss the  
7 critical role Homeland Security Investigations, or HIS,  
8 continues to play in addressing the emerging threat posed by  
9 Chinese money laundering organizations, or CMLO.

10 As a primary criminal investigative component of the  
11 Department of Homeland Security, HSI has a broad  
12 investigative mandate and unique customs and financial  
13 authorities, which we utilize to identify, disrupt, and  
14 dismantle transnational criminal organizations through  
15 criminal investigations and prosecutions. CMLOs represent  
16 one of the most worrisome new threats in combating  
17 transnational organized crime.

18 CMLOs are relied upon by the Mexican cartels and other  
19 transnational criminal organizations, or TCOs, to launder  
20 their illicit gains. CMLOs operating in the United States  
21 act as foreign currency exchanges, enabling TCOs to exchange  
22 U.S. dollars derived from their criminal activity for  
23 foreign currencies. Often the use of encrypted apps beyond  
24 the reach of law enforcement allows TCOs and CMLOs to move  
25 vast sums of dirty money quickly and quietly.

1           Virtually unheard of less than a decade ago, CMLOs have  
2 come to dominate much of the money laundering globally.  
3 CMLOs use a number of complex money laundering techniques to  
4 help Chinese citizens evade China's currency controls,  
5 including the use of Chinese underground banking.

6           The underground banking system involves paying the  
7 amount required to be remitted overseas to a local bank  
8 account controlled by the CMLO. The CMLO then arranges for  
9 a reciprocal payment or a mirror transfer to be made into a  
10 bank account of the remitter choice. CMLOs use these  
11 mirrored swaps to launder funds for TCOs faster and cheaper  
12 than other professional MLOs.

13           The rise of Chinese underground banking activity in the  
14 United States is largely attributed to stringent currency  
15 controls imposed by the people's Republic of China on its  
16 citizens. Chinese law limits Chinese citizens from  
17 transferring more than \$50,000, driving Chinese citizens  
18 seeking to circumvent currency restrictions to increasingly  
19 rely on the services of CMLOs.

20           For access to the U.S. dollar, one of HSI's top  
21 priorities is to investigate the vast international money  
22 laundering schemes connected to the illicit narcotics trade  
23 and other cross-border criminal activities. HSI special  
24 agents work to identify and seize the illicit proceeds and  
25 instrumentalities of crime, and target financial networks



1 that transport, launder, and hide such proceeds.

2 As a customs agency with significant access to  
3 financial and trade data, HSI is the U.S. government's  
4 primary law enforcement agency responsible for investigating  
5 trade-based criminal schemes. HSI's financial efforts in  
6 Fiscal Year 2023 resulted in 2,474 arrests, 1,579 criminal  
7 indictments, 842 convictions, and the seizure of 457 million  
8 illicit currency and other assets.

9 At the national level HSI has established a Cross  
10 Border Financial Crime Center, or CBFCC, a public-private  
11 partnership to strengthen the United States anti-money  
12 laundering framework. The CBFCC convenes federal law  
13 enforcement agencies, partner national authorities, banks  
14 and financial institutions, and financial technology  
15 companies to promote collaboration on cross border financial  
16 crimes.

17 At the local level, the HSI El Dorado Financial Crimes  
18 Task Force, or EDTF, remain one of the most historically  
19 effective platforms to identify, mitigate, and close the  
20 gaps exploited by TCOs to disguise and move their illicitly  
21 obtained funds.

22 Initially established in New York, the EDTF are now  
23 being rolled out into the 29 other HSI domestic offices.  
24 The EDTF bring together federal, state, tribal, and local  
25 law enforcement to disrupt and dismantle the transnational

1 money laundering organizations by prioritizing high priority  
2 financial investigations, actively engaging private sector  
3 partners, and leveraging federal and state laws and  
4 regulations to bring successful prosecutions.

5 Over the last decade, EDTF investigations alone led to  
6 over 2,100 arrests and the seizure of over \$2.6 billion,  
7 with a B, in illicit proceeds. HSI partners with the U.S.  
8 Department of Treasury Financial Action Task Force, U.S.  
9 Department of Justice, Money Laundering and Asset Recovery  
10 Section, Bank Secrecy Act Advisory Group, and the Five Eyes  
11 Law Enforcement Working Group to provide anti-money  
12 laundering assessments, training, best practices, and  
13 lessons learned in the fight against global money  
14 laundering.

15 Thank you for the opportunity to appear before you  
16 today, and I look forward to your questions.

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

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1           The Chairman. Thank you, acting Assistant Director  
2   Mayoral. We now turn to Mr. Kimbell from the Drug  
3   Enforcement Administration.

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1 STATEMENT OF WILLIAM KIMBELL, CHIEF OF OPERATIONS,  
2 DRUG ENFORCEMENT ADMINISTRATION

3 Mr. Kimbell. Good afternoon, Chairman Whitehouse, co-  
4 Chair Grassley, and distinguished members of this caucus.  
5 It is my honor to appear here before you today.

6 On behalf of the Department of Justice and the  
7 approximately 10,000 employees of the Drug Enforcement  
8 Administration, or DEA, I'm particularly thankful for the  
9 opportunity to discuss the role of Chinese money laundering  
10 in our current drug crisis. I'm grateful for the time  
11 allotted to testify and thank the caucus for bringing up  
12 this important topic.

13 Our nation is in the midst of an unprecedented drug  
14 poisoning and overdose epidemic that has devastated  
15 countless American families and communities. This scourge  
16 has claimed the lives of 107,941 Americans in 2022 and an  
17 estimated 110,000 Americans in 2023. As a nation, almost  
18 300 Americans a day are lost to drug-related deaths. Nearly  
19 70 percent of all drug-related deaths in the United States  
20 involve illicit fentanyl. That figure does not include  
21 those who overdose and are later revived with lifesaving  
22 treatments like naloxone.

23 The two cartels responsible for controlling the  
24 majority of fentanyl traffic to the United States are the  
25 Sinaloa and Jalisco Cartels. These drug trafficking

1 organizations are highly sophisticated, extremely dangerous,  
2 and operate throughout Mexico and the United States.  
3 Notwithstanding the cartels ruthless and gritty nature, they  
4 still rely on illicit enablers to supply precursor chemicals  
5 and money laundering services to carry out their unlawful  
6 agenda.

7 To counter the dangerous threat of fentanyl waged by  
8 the cartels and their illicit enablers, the DEA has  
9 realigned all investigative resources to target the entire  
10 network and each step of the fentanyl supply chain. The  
11 fentanyl supply chain begins with Chinese chemical companies  
12 responsible for supplying precursor chemicals to the Sinaloa  
13 and Jalisco cartels. Money launderers represent the end of  
14 the supply chain and allow the entirety of the logistical  
15 network to remain profitable and operational.

16 In our investigations, the DEA has witnessed the  
17 evolving trend of Chinese money laundering organizations,  
18 becoming the prominent criminal groups, collaborating with  
19 the Sinaloa and Jalisco Cartels to launder their dirty  
20 money. The relationship between Chinese money laundering  
21 organization and Mexican cartels provide access to well-  
22 established money laundering networks operating in most  
23 metropolitan areas in the United States.

24 These sophisticated networks are incorporated with  
25 established worldwide trade entities, including Chinese

1 imports and exports. Chinese money laundering organizations  
2 possess a unique capacity to compartmentalize networks and  
3 recruit from within Chinese communities that have  
4 expatriated worldwide.

5 DEA's investigations indicate Chinese money laundering  
6 operations will continue to expand due to their ability to  
7 exploit regulatory gaps and quickly change operational  
8 methodologies. Chinese money laundering organizations use a  
9 variety of methods to include the Chinese underground  
10 banking system, convertible virtual currencies, bulk  
11 shipment, storage of large amounts of currency, and the  
12 purchase of real estate and other properties to diversify  
13 and conceal their furtive activities.

14 To combat this threat, DEA has added a strategic level  
15 to all of our investigations by creating three definitive  
16 counter threat teams. One team is dedicated to the Sinaloa  
17 Cartel, a second to the Jalisco Cartel, and a third to  
18 illicit finance. Each of these counter threat teams  
19 centralize intelligence and data from our 334 offices  
20 worldwide, and utilize all available tools to effectively  
21 map the cartel's network and target the complex supply  
22 chains at every step.

23 To ensure utilization of every available resource, DEA  
24 has paired our Attorney General Exempted Operations program,  
25 and our newly created Counter Threat Team on Illicit Finance

1 to maximize efforts and to ensure results. This pairing has  
2 sharpened our focus and aided in the identification of  
3 significant money laundering networks that were previously  
4 unidentified. This pairing is effectively coordinating the  
5 prosecution of money laundering networks across multiple  
6 judicial jurisdictions at this time.

7 DEA's AGO Program has demonstrated a long history of  
8 success. DEA's AGO Program has seized approximately \$5.6  
9 billion in cash and assets, and has made over 14,000 arrests  
10 in the United States and abroad since the year of 2000. As  
11 a citizen of this great country, we must by all means do  
12 everything possible to stop this national crisis. Success  
13 hinges on DEA's targeting and enforcement efforts pursuing  
14 the illicit production and distribution of fentanyl.

15 DEA plays a crucial role in identifying and pursuing  
16 these criminal syndicates responsible for supplying fentanyl  
17 to our neighborhoods across the United States. The men and  
18 women of DEA are relentlessly focused on combating the  
19 deadly drug poisoning epidemic and on saving American lives.

20 Thank you for this opportunity to appear today before  
21 this caucus, and I look forward to any of your questions.

22 Thank you.

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

24

25

1           The Chairman. Thank you-all very much. It's been my  
2 experience that in our drug enforcement efforts, we focused  
3 a lot on the illicit product itself and on the distribution  
4 system for that illicit product. That's the way I operated  
5 as U.S. Attorney and Attorney General.

6           We've had plenty of busts with the drugs and everything  
7 laid out on the table, and we focused less, I think, on the  
8 financial systems that allow the money to get back to the  
9 cartels. And we focused even less on the supply chains of  
10 legitimate chemicals that are precursors to the illicit  
11 substances.

12           And it makes some sense because if you're making busts,  
13 the illicit drug is itself contraband. If you've seized it,  
14 you've got a case. But money is not in and of itself  
15 contraband, and precursor chemicals are not in and of  
16 themselves contraband. You actually need to understand how  
17 the system works in order to show how that fits and in order  
18 to make the case.

19           So, it's more complicated and it's more difficult, but  
20 that's what you need to do to make the case on the finance  
21 and supply chain sides of this industry. And I would say,  
22 moreover, that if we're really going to be effective, we  
23 have to not only know what the systems are to be able to  
24 connect dollars and precursor chemicals to cases.

25           We have to know what the systems are so we can figure



1 out how to disrupt and degrade them because, in my view,  
2 there is an architecture of secrecy globally that not only  
3 cartels, but kleptocrats, international criminals,  
4 terrorists use to hide and maneuver their ill-gotten gains.  
5 So that's where I really want to focus.

6 And, I guess, I appreciate very much Under Secretary  
7 Nelson, the work that's been going on at FinCEN. We've  
8 tried to get you more resources, but give us a quick  
9 response on where you think additional resources would best  
10 be deployed in order to take on that ~~in~~-systems disruption  
11 function.

12 Mr. Nelson. Thank you for that question, and I think  
13 we absolutely agree the key to preventing the ongoing abuse  
14 of our financial system is closing those gaps that I think  
15 in the work of the AMLA Act of 2020, and obviously, the  
16 Corporate Transparency Act, we've identified together some  
17 of those big gaps.

18 One, obviously, having information about shell  
19 companies and those vehicles that we know that drug traffic  
20 and organizations have long used in our system. And now  
21 that we have a beneficial ownership registry set up with  
22 over 1.5 million businesses have already provided  
23 information to FinCEN about their true beneficial owner, we  
24 believe this is going to be an incredibly valuable tool for  
25 law enforcement.

1 The Chairman. And the resources needed?

2 Mr. Nelson. You know, I think, we appreciate the  
3 resources that have been granted to us to date, but  
4 reflecting that we have really surged to support the  
5 standing up the beneficial ownership registry ~~information~~  
6 ~~registry~~ itself, and all of the technical and personnel in  
7 support of that. And it's frankly not sustainable on an  
8 ongoing basis, absent additional resources.

9 The Chairman. And it probably should actually require  
10 some more resources once the regulations about enablers in  
11 residential real estate, commercial real estate, and the  
12 investment side --

13 Mr. Nelson. Exactly.

14 The Chairman. -- go into operation.

15 Mr. Nelson. Absolutely. And we think, again, we're  
16 closing the biggest gaps in our anti-money laundering and  
17 countering financing terrorism system in the United States  
18 and, and really bringing us to compliance with international  
19 AML/CFT standards.

20 It's so critical that it's just not the United States,  
21 but United States leadership so that we can push out the  
22 message that we need systemic change in all of our  
23 respective jurisdictions in order to fight, to your point,  
24 the ability of these bad actors to engage in this form of  
25 jurisdictional arbitrage that we see so frequently

1           The Chairman. And similarly, it's important that we  
2 get the enablers themselves. It should not be okay for a  
3 professional who's in an investment bank or in a big real  
4 estate firm to be dodging responsibilities for money  
5 laundering that banks have to do, and basically giving aid  
6 and comfort to our enemies. Correct?

7           Mr. Nelson. Absolutely. And as you know, the  
8 administration supports your ENABLERS Act to help get after  
9 exactly that challenge. The thing I would just say there,  
10 again, is just a plea for additional resources. So, to the  
11 extent that we have those new authorities, we'll be able to  
12 implement them to their fullest extent.

13          The Chairman. And Mr. Kimbell, a quick word on the  
14 illicit finance counter threat team that DEA has stood up, I  
15 gather, in June. Can you tell us a little bit about the  
16 personnel and budget of that in the context of a 10,000-  
17 person or so agency?

18          Mr. Kimbell. So, we have three counter threat teams, a  
19 total of about 60, 65 investigators. We stood up the  
20 illicit --

21          The Chairman. What are the three? One of them is  
22 illicit finance. What are the other two?

23          Mr. Kimbell. One focuses on the Sinaloa Cartel, and  
24 one focuses on Jalisco Cartel. We created the third illicit  
25 finance team because we started seeing so much crossover

1 between the cartels when it comes to laundering money.

2 So, we've paired up with the IRS, we have CBP involved  
3 right now. We're expanding our operations on illicit  
4 finance. We started breaking down all of our AGO  
5 investigations. We took all of the data that we were  
6 finding and we compiled that. We started running that with  
7 our other partner agencies to really identify money  
8 laundering networks that we didn't know previously existed.

9 It's been a very rewarding experience. And one of the  
10 things, the priority for this, is getting prosecution across  
11 multiple judicial jurisdictions. We're seeing these money  
12 laundering networks operating in, you know, together across  
13 the United States. In the past, we haven't organized  
14 prosecution to actually target those networks.

15 The Chairman. Senator Grassley.

16 Senator Grassley. Thank you, Senator Whitehouse. Mr.  
17 Kimbell, taken off from the video that I showed to  
18 everybody, Oklahoma had given the farm a medical marijuana  
19 license. The application for the license fraudulently  
20 stated that the operation was 75 percent owned by an  
21 Oklahoma resident as required by state law. Instead, the  
22 marijuana farm was run by an ex-convict, reportedly awaiting  
23 trial for a separate shooting incident.

24 This isn't an isolated occurrence. Oklahoma law  
25 enforcement has shut down more than 800 marijuana farms in

1 the last two years for operating illegally. So, my  
2 question, given history, like I just stated, does this fact  
3 that a state, any state-licensed marijuana farm, mean that  
4 the farm isn't generating illegal proceeds?

5 Mr. Kimbell. Senator, thank you for the question.  
6 We're frequently seeing and we've identified in 23 states  
7 that Chinese organizations have taken over the cultivation  
8 of marijuana. Some of those are legitimate, some of those  
9 are illegitimate. The vast majority that we find in working  
10 with our state and local counterparts are illegitimate.

11 That means that some of the properties are bought with  
12 third-party actors, but the people working in those  
13 facilities and cultivating those facilities are controlled  
14 and work at the behest of Chinese money laundering  
15 organizations and marijuana growers organizations.

16 We found this is a significant problem, and it goes  
17 from California all the way across the country into the  
18 Northeast, and it's becoming a serious challenge that we all  
19 are looking to do more in, do more to stop the problem as  
20 it's ongoing.

21 Senator Grassley. So a state-approved farm can  
22 generate illegal proceeds, right?

23 Mr. Kimbell. It can, yes.

24 Senator Grassley. Thank you, Mr. Chester. At an  
25 October Drug Caucus hearing, I asked the State Department

1 for a briefing before the U.S. lifted sanctions on China to  
2 secure fentanyl cooperation. I never got that briefing. In  
3 November, the Biden administration lifted sanctions. This  
4 month, the House China Select Committee issued a report  
5 finding the Chinese government publicly subsidizes the  
6 export of fentanyl and knockoffs.

7 This graph that you see is one of several subsidies  
8 that they found. Giving these findings, it seems  
9 irresponsible to appease China with relaxed sanctions. My  
10 staff received an email that that you were at this hearing,  
11 "representing the White House." So, this legitimate  
12 question, was the Biden administration aware of this illicit  
13 narcotic subsidy program before it made concessions to the  
14 Chinese government?

15 Mr. Chester. Thank you, Senator, for the question.  
16 I'll answer this in a couple ways. The first one is, with  
17 the help of the intelligence community, the administration  
18 has what we consider to be a very good picture on what is  
19 and is not the role of the Chinese government in the flow of  
20 precursors and fentanyl into the United States and has for  
21 an extended period of time. I think that's the first thing.

22 The second thing is, it is critically important that we  
23 engage the government of the PRC in helping us to be able to  
24 deal with this because there are criminal elements within  
25 China. The preponderance supports the part of the problem.

1 And so, our engagement with the PRC is not designed to paper  
2 over or sugarcoat anything. It's designed to engage a  
3 country that can do the most to help solve this problem with  
4 our understanding of what their role is in it.

5 Senator Grassley. So, our government was aware of the  
6 illicit narcotic subsidy program before it made concessions  
7 to the Chinese government?

8 Mr. Chester. Senator, please understand, in a public  
9 forum, I really would not like to get into what we do and do  
10 not know about the Chinese government. What I will say  
11 about this report though is that we appreciate the committee  
12 putting it out. I think it's all part of the broader  
13 discussion that we have with the PRC and a part of the  
14 picture of what the PRC's role is in this and an element of  
15 our engagement with the country overall.

16 Senator Grassley. Okay. Mr. Kimbell, I'm still  
17 waiting for DEA to respond to my questions for the record  
18 from October, 2023, Drug Caucus Hearing. Homeland Security  
19 Investigations gave us their report on April the 19th. Can  
20 you get us a response to our request?

21 Mr. Kimbell. Yes, Senator. I'll track it down and get  
22 a response.

23 [The information referred to follows.]

24 [COMMITTEE INSERT]

25

1

2 Senator Grassley. Okay, thank you.

3 The Chairman. Yeah. October is quite a long time,  
4 actually, so thank you for that, Mr. Kimbell. Senator  
5 Cornyn.

6 Senator Cornyn. Thank you, Mr. Chairman. According to  
7 news reports, in 2021, 80 percent of the marijuana sold in  
8 California originated in illegal grows. Can anybody explain  
9 to me why when states have presumably legalized some aspect  
10 to the marijuana trade, some medical marijuana, others  
11 recreational, and the like, why 80 percent of the marijuana  
12 sold in California would be sold or originated in illegal  
13 grows? What's going on here, Mr. Kimbell?

14 Mr. Kimbell. Thank you for the question, Senator. I  
15 think with any business, there's the ability to break the  
16 law with that business. By selling marijuana illegally  
17 through the black market, they're able to skirt tax laws,  
18 and they're able to do a multitude of different things by  
19 not following the regulations.

20 Senator Cornyn. So by presumably legalizing, at least  
21 at the state level, if not at the federal level, marijuana  
22 trade, it hasn't eliminated the illegal activities of  
23 growers, distributors, and users, right?

24 Mr. Kimbell. Correct.

25 Senator Cornyn. Let me turn your attention to



1 remittances. According to my figures here, \$63 billion of  
2 remittances were received by Mexico alone last year. Mostly  
3 from the U.S., although not exclusively, which made up 4  
4 percent of Mexico's gross domestic product, and which is up  
5 7.6 percent over the previous year.

6 Now, I realize that people who come to the United  
7 States and work want to send money home to their friends and  
8 families, but it seems to me that this is rife for  
9 exploitation by various bad actors for money laundering and  
10 the like. What is the current -- Mr. Nelson, maybe this  
11 would be a good one for you, what's the current state of our  
12 ability to discern exactly how many of these remittances are  
13 being used for presumably benign purposes as opposed to  
14 those that are being used for illicit activity like money  
15 launder?

16 Mr. Nelson. Yeah. Thank you for that question,  
17 Senator. I think I would respond in maybe just two parts.  
18 First, of course, given the volume of financial flows  
19 between Mexico and the United States, this is an area that  
20 we're paying close attention to. I would say in an open  
21 forum, we haven't assessed that. We are seeing a tremendous  
22 amount of abuse by drug trafficking organizations on  
23 remittance transfers, but can provide a more detailed  
24 explanation of why that is in a different setting.

25 Senator Cornyn. I think there's a \$200, I believe,

1 threshold for reporting. But certainly, as we've seen in  
2 other financial transactions, it's easy to structure some of  
3 these in ways to circumvent that requirement.

4 Mr. Nelson. Well, this goes exactly to the second  
5 point. The thing that FinCEN colleagues do, and  
6 particularly around this question of countering narcotics  
7 trafficking from Mexico is engaging with financial  
8 institutions, bringing them in with law enforcement  
9 partners, and having a conversation about trends and  
10 typologies to look for, particularly as it relates to  
11 fentanyl flows and all of the money laundering techniques  
12 that support those flows and that trafficking, but also  
13 generally in support of financial typologies that relate to  
14 the trafficking of guns, and people, and of course, drugs.

15 So that is one of the key ways in which we play sort of  
16 the muscle between law enforcement and financial  
17 institutions to ensure that financial institutions know what  
18 to look for to prevent exactly that type of abuse.

19 Senator Cornyn. So, I've drafted legislation that  
20 would -- that we call Ending the Use of Remittances to  
21 Finance Terrorism, Narcotics, and Human Trafficking Act, and  
22 basically to create remittance security task forces among  
23 other things, made up of Treasury, DOJ, DHS, local, state  
24 law enforcement, and the like.

25 I'm looking for a Democratic co-sponsor for that bill,

1 and I think the chairman would be a good choice for that.  
2 But do you think it would be useful to create more  
3 transparency, more eyes on the target to try to create some  
4 sort of remittance security task force?

5 Mr. Nelson. I think, in principle, we are seeking more  
6 transparency. We're seeking additional opportunities to  
7 share information with our Mexican counterparts, and  
8 certainly, would be happy to take a look at your bill.

9 Senator Cornyn. Thank you. Mr. Chairman, may I follow  
10 up one more question with Mr. Kimbell?

11 The Chairman. And we'll have a second round as well.

12 Senator Cornyn. Okay. Unfortunately, I won't be able  
13 to stay, but thank you for this. This is a sensitive topic.  
14 But last three years, about 1.8 million people have evaded  
15 law enforcement coming across the border. The border patrol  
16 calls them gotaways, and we don't know whether they are  
17 criminal fugitives, whether they're drug mules, whether  
18 they're engaged in some other sort of activity, potential  
19 terrorist activity in the United States, and the like.

20 But, Mr. Kimbell, do you agree with me that the fact  
21 that 1.8 million migrants who transited our border, who've  
22 evaded law enforcement, that that in all likelihood would  
23 involve people involved in the illegal drug trade?

24 Mr. Kimbell. It would. Our investigation shows that  
25 some of those people that cross are involved in the illegal

1 drug trade.

2 Senator Cornyn. And we just don't really have a handle  
3 on that, I presume, since they did get away?

4 Mr. Kimbell. It's very hard to get a handle on that  
5 many people, Senator.

6 Senator Cornyn. Thank you.

7 The Chairman. And Senator Hassan.

8 Senator Hassan. Well, thank you, Chair Whitehouse, and  
9 Ranking Member Grassley, for holding this hearing today.  
10 Thank you, to all of our witnesses for the work that you do  
11 to stem the flow of illegal drugs and their precursor  
12 chemicals into the United States, and to prevent the  
13 laundering of profits from this drug trafficking.

14 So, Under Secretary Nelson, I want to start with a  
15 question to you, and really build off of the report that  
16 Senator Grassley asked you about. Earlier this month, the  
17 House China Select Committee published this report showing  
18 that the Chinese central government provides tax rebates to  
19 producers of fentanyl analogs and precursors. Through these  
20 subsidies, the Chinese government is supporting the flow of  
21 Fentanyl into the United States and other countries.

22 Has the Treasury Department assessed whether these  
23 subsidies may be considered a form of material support for  
24 the international fentanyl trade? If so, what options would  
25 this give the Treasury Department to leverage the

1 possibility of sanctions to stop the Chinese government from  
2 subsidizing illegal fentanyl?

3 Mr. Nelson. Thank you very much for that question.

4 And you know, as colleagues have said, we obviously are  
5 looking closely at the report and the information in it.

6 One of our overall approaches with China is in recognition  
7 that these Chinese money laundering organizations are  
8 violating Chinese law, and the Chinese are best positioned  
9 to be able to take action to prevent them from operating  
10 within China.

11 So, in that context, Secretary Yellen, who was just  
12 there earlier this month or last month, created a channel so  
13 that we can directly talk about illicit finance issues  
14 within our respective systems. And certainly, that paired  
15 with the Counter Narcotics Working Group, is an opportunity  
16 to encourage and press and really have the Chinese live up  
17 to the commitments that they made in those channels to look  
18 and work with us on exactly these issues.

19 And in that context, we provided a number of specific  
20 information about entities of concern and are in an  
21 information exchange with the Chinese about those entities.

22 Senator Hassan. Thank you for that answer, but I just  
23 want to be clear. Even if they're giving tax rate rebates,  
24 even if the Chinese government knows these companies are  
25 violating their law and supplying support or supplying

1 precursors, we are not looking at whether this, the tax  
2 rebates, themselves constitute material support?

3 Mr. Nelson. So under OFAC sanctions authorities, to  
4 the extent, of course, any individual or entity is providing  
5 material support, they could themselves be sanctioned.

6 Senator Hassan. Okay, thank you. To each of you, I  
7 traveled to China as part of a bipartisan Congressional  
8 delegation last year. After we pushed President Xi, he  
9 committed to working with the United States to stop the flow  
10 of fentanyl and fentanyl precursors to the United States.  
11 And I will add here, that he heard, and all of the Chinese  
12 government officials we met with heard from each and every  
13 one of us about examples of the just way the fentanyl trade  
14 has devastated our communities.

15 Doesn't matter what part of our country, which  
16 political party you're in, this is just tearing families,  
17 communities apart. So, we need to see action. The Chinese  
18 government needs to disrupt the trafficking of chemicals  
19 used to make illegal fentanyl, and it needs to disrupt the  
20 money laundering that enables drug traffickers.

21 So, what is one action that the Chinese government  
22 could take to disrupt the money laundering organizations  
23 that finance the illegal fentanyl trade? And we'll start  
24 with you, Mr. Chester, and we'll just go right down the  
25 line.

1           Mr. Chester. Thank you, Senator. The first thing I'll  
2 say is the delegation that you were part of was instrumental  
3 in helping the United States get commitments from President  
4 Xi and from the PRC in order to take this much more  
5 seriously and to make some tangible progress.

6           I would say that when it comes to the money laundering,  
7 some of the engagement that Under Secretary Nelson was  
8 talking about, particularly in those areas where individuals  
9 are circumventing Chinese law as much as they are the United  
10 States, and opening up engagement specifically on the money  
11 laundering aspects, I think holds the greatest promise in  
12 being able to deal with this issue on a bilateral level.

13           Senator Hassan. Thank you. Under Secretary Nelson?

14           Mr. Nelson. I concur wholly with that.

15           Senator Hassan. Okay. I'm having a hard time reading  
16 this far, which means I need new glasses, but to our next  
17 witness, sorry.

18           Mr. Chester. Not a problem, ma'am. It's just HSI as a  
19 law enforcement agency to specifically target Chinese  
20 millennial organizations operating within our borders. We  
21 created a cross-border financial crime center to exchange  
22 information with our financial sector partners and foreign  
23 partners about the techniques and methods that we are  
24 uncovering during our investigations. So the banking  
25 industry, and also we have partnered with U.S. financial

1 regulators.

2       So, we share the techniques and the methods that we  
3 have uncovered during our investigations of Chinese money  
4 laundering organizations operating within the United States  
5 with them so they can create a more robust anti-money  
6 laundering compliant framework.

7       Senator Hassan. Thank you. And sir?

8       Mr. Kimbell. Thank you for the question. We would  
9 like to see more cooperation from the Chinese where they're  
10 actually sharing intelligence with us when they identify  
11 people in their own country that are breaking their money  
12 laundering laws. We would like to see that information  
13 passed so we can get a bigger picture of exactly the events  
14 that are transpiring.

15       Senator Hassan. Thank you very much. Thank you, Mr.  
16 Chair.

17       The Chairman. Thank you, Senator. So, we'll do a  
18 second round now before we let you-all go back to work. And  
19 I want to frame the question I'm going to ask by pointing  
20 out my view that we are in a clash of civilizations akin to  
21 the famous title of Sam Huntington's book. Only that clash  
22 of civilizations is between rule of law and democracy on one  
23 side of the clash, and rule of crime and autocracy on the  
24 other side of the clash. And that much of the evil that has  
25 befallen America and the world in the last 20 or 30 years



1 emerges from that world of rule of crime and autocracy.

2       So, it really matters to go after its institutions and  
3 degrade them. We didn't just shoot the V bombs, or  
4 Churchill didn't just shoot the V bombs when they came over  
5 London. He went back and bombed the Ruhr Valley where the V  
6 bombs were being made. We went after the structure.

7       And what I look out and see is that there is a  
8 structure of financial secrecy that is available pretty much  
9 to all comers. It's not specific only to the narcotics  
10 business. It's also if you've looted your country, or if  
11 you are running trafficking organizations, or if you know  
12 what, whatever you've done to be a crook, or if you're a  
13 terrorist and don't want your money found, available to you,  
14 are a Chinese money laundering organizations, separate bank  
15 accounts, Cayman Island corporations, Dakota Trusts. And  
16 sadly, as Secretary Yellen had to acknowledge, U.S. shell  
17 corporations as an important part of that architecture.

18       Now, the Corporate Transparency Act is going to degrade  
19 that piece of the architecture. But that architecture is  
20 still there, and it is facilitated by professional enablers  
21 who go home and act like they're normal legitimate people  
22 even though what their real job is to facilitate, to aid and  
23 abet our enemies on the other side of that clash of  
24 civilization.

25       So, what I'd like to see is real trade, diplomatic,

1 economic, and other consequences for countries that support  
2 and permit that kind of activity. We've done a pretty good  
3 job making sure that if countries allow child labor, they  
4 hear about it and across a whole bunch of different vectors.  
5 Again, economic, diplomatic trade and others, there are very  
6 significant penalties for putting up for them doing that,  
7 and we should have similar penalties for those who support  
8 that international architecture.

9       So, my questions, do any of you doubt that there is in  
10 fact a fairly robust and fairly coherent international  
11 architecture of secret finance that is available to  
12 criminals and autocrats around the world?

13       Mr. Chester. No, Senator. Not at all. And in fact,  
14 this is the essence of commercial disruption, which is to  
15 acknowledge that architecture, find its vulnerabilities, and  
16 target them all simultaneously with the understanding that  
17 there's material moving back and forth in terms of precursor  
18 chemicals and machines.

19       But there is a financial underlay that lubricates that  
20 entire process. And that's in terms of the profits, but  
21 also in terms of the operating capital because it costs us  
22 money to do these things. So, what commercial disruption is  
23 designed to do is to use the tools that we have in a more  
24 sophisticated fashion and bring tools to the table that we  
25 probably have not fully employed before in order to be able

1 to go after just what you described, which is the essence of  
2 this global illicit business.

3 And so, the 21st century model that I described, you  
4 know, earlier in my oral testimony of packaged drugs that  
5 move across the border and go through a hierarchical cartel,  
6 everyone involved in that knows that they're a criminal.  
7 It's fairly localized, and that requires a purely law  
8 enforcement approach. You find the individuals that are  
9 doing it, you eradicate the poppy fields or the coca fields,  
10 you find the labs, and you arrest the people.

11 While that still exists, we have this global illicit  
12 business that involves financiers, and wealth managers, and  
13 bankers, and thousands upon thousands of individuals who  
14 make this machine work that are not amenable to a purely law  
15 enforcement approach. And so, we have to use other tools in  
16 a more sophisticated fashion.

17 And so absolutely agree with your characterization, and  
18 that's why our strategic approach to this has to be much  
19 more sophisticated than simply what we had before when the  
20 drug producing and trafficking environment was much  
21 different than what we're dealing with now.

22 The Chairman. Yeah. I think that Mr. Kimbell's  
23 agency's work to set up an illicit finance counter threat  
24 group is a good thing. I'd like to see it 10 times the  
25 size. But that attacks it from one side. I think the other

1 side, you have to attack the political and professional  
2 enablers as well so the whole system gets degraded.

3 With that, let me turn to Senator Grassley.

4 Senator Grassley. In December, President Biden  
5 released the prolific money launder Alex Saab to Venezuela  
6 as part of a deal cut with narcotic terrorists and President  
7 Nicholas Maduro. Was the DEA consulted before the Biden  
8 administration released Alexander Saab, and the case against  
9 Saab now is, of course, foreclosed because he is fully  
10 pardoned. When will you release the investigative file?

11 Mr. Kimbell. Senator, thank you for the question.  
12 Senator, we were not consoled before this, before he was  
13 released. I will have to check the status of the  
14 investigative file. I'm not sure exactly what the status of  
15 that file is at this point in time. Well, I can find out  
16 and get back with you.

17 Senator Grassley. Well, even though, please do that.  
18 But there wouldn't be any reason we wouldn't be able to see  
19 the investigative file. Right or wrong?

20 Mr. Kimbell. I would have to check the status. I do  
21 not know if it's open or closed at this point in time.

22 Senator Grassley. Okay. Mr. Nelson, after Secretary  
23 Yellen's meeting with Chinese officials in Beijing at the  
24 beginning of the month, she remarked that the U.S. and China  
25 will share best practices and information to clamp down on

1 loopholes in our respective financial systems. What sort of  
2 information does the U.S. government plan to share with  
3 China?

4 Mr. Nelson. So following Secretary Yellen's trip to  
5 China where she and her counterparts had a direct series of  
6 engagements around our respective illicit finance  
7 challenges, a group met here in Washington, DC just a couple  
8 of weeks ago and specifically identified illicit finance  
9 moving to virtual assets as an area of particular shared  
10 concern, also looking at our respective capacity to  
11 understand transparency within our corporate formation  
12 system and our implementation of our beneficial ownership  
13 authorities.

14 They talked about relatively specific challenges like  
15 pig butchering, which is a form of scam in order to sort of  
16 generate funds in a relationship with trust before the scam  
17 artist steals from the victim. And then we also had an  
18 opportunity to talk about regulation of financial  
19 technology.

20 But the idea is really to set an agenda in these  
21 regular meetings, and then, obviously, continue to build on  
22 the prior conversations while identifying issues of shared  
23 concern moving forward. And specifically, in the context of  
24 it's not just issues where we both are worried about, but to  
25 the extent that Secretary Yellen has led conversations

1 directly about our deep concerns about China's role in  
2 facilitating the trafficking of fentanyl and other synthetic  
3 narcotics.

4 It is a dynamic where they may have concerns that  
5 aren't our concerns, but we are expressing directly with  
6 them concerns that we perceive emanating from their system

7 Senator Grassley. For you as well. Did the Chinese  
8 government disclose its illicit narcotics subsidy program to  
9 any American official during discussions about enhanced  
10 cooperation?

11 Mr. Nelson. That, I don't know. I'd have to come  
12 back.

13 Senator Grassley. Does the Treasury Department plan to  
14 raise China's illicit narcotics subsidy program in future  
15 talks with China?

16 Mr. Nelson. Again, I don't know about that specific  
17 program. But again, we are looking closely at the report,  
18 and then happy to have a follow-on conversation in a  
19 confidential or classified space.

20 Senator Grassley. Yeah. To Mr. Mayoral, since 2020,  
21 auditors have been calling on HSI to do more to counter  
22 money laundering. In 2020, the Government Accountability  
23 Office report mentions that HSI does not have a clear guide  
24 on how best to operate its Trade Transparency Unit, which  
25 counters trade-based money laundering.

1 Further, the Office of Inspector General's report said  
2 that HSI does not retain expertise to combat these schemes.  
3 My last question is, what is HSI doing to improve its trade-  
4 based money laundering operations?

5 Mr. Mayoral. Thank you, Senator, for your question.  
6 The Trade Transparency Units is part of the foundation of  
7 the creation of the Cross-Border Financial Crime Center.  
8 Trade-based money laundering is probably the most used form  
9 of money laundering by transnational criminal organizations.

10 The way that we are addressing the findings of the GAO  
11 audit are twofold. We are, first, automating our computer  
12 system. We relied on software that was, you know, to put it  
13 mildly, a bit clunky, and require manual entries and manual  
14 searches. We have come up with a plan to make a lot of the  
15 functions automated.

16 We have also requested a budgetary enhancement to  
17 create more positions for our Trade Transparency Unit. But  
18 in the meantime, to address the personnel staffing shortage,  
19 shortages that we currently have, we have merged our Trade  
20 Transparency Unit with our Bulk Cash Moving Center to create  
21 the Cross-Border Financial Crime Center. That way we can  
22 cross-train our personnel on trade-based money laundering  
23 and customs fraud violations, which are part of the Trade  
24 Transparency Unit findings that we have uncovered over the  
25 years.

1           Like I said, you know, trade is the main way in which  
2 transactional organized crimes launder their proceeds. So  
3 we have to make sure that employees are not only trained on  
4 the latest techniques, but also trained on custom fraud  
5 violations that a lot of times are the violations that  
6 uncover that trade a fraud is being committed.

7           The Chairman. Mr. Mayoral, I'd like to jump in on a  
8 question as well, if you don't mind. We used to make cases  
9 called structuring cases, which is when somebody is taking a  
10 \$200,000 deposit and breaking it up into \$9,000 chunks so  
11 that no individual deposit has to be reported as a  
12 suspicious activity report.

13           I'm hearing now that in some of this money laundering  
14 activity to bring revenues back to the cartels, deposits are  
15 actually being made in big numbers, in reportable numbers,  
16 not being structured down to under \$10,000 which presumably  
17 triggers a SARs report.

18           So the concern I have is whether there's been some  
19 degrading of the SARs reporting system, such that people  
20 involved in the criminal enterprise of returning money to  
21 drug cartels now feel comfortable making deposits that are  
22 large enough to trigger the SARs report. People used to try  
23 to avoid that. Now, it doesn't seem that that's the case so  
24 much. Could you comment on that?

25           Mr. Mayoral. Absolutely. Thank you for your question,



1 Chairman Whitehouse. What we are seeing is not a  
2 degradation of the SARs reporting mechanism. What we're  
3 seeing is, especially within the Chinese money laundering  
4 organizations, is the new methods that are being utilized by  
5 the organizations to avoid being caught smurfing,  
6 structuring those transactions to, you know, not trigger the  
7 reporting requirements.

8       What we are seeing is couple of things. The two main  
9 ones is the utilization of money mules; people that get  
10 hired by the cartels. These are people that think that  
11 they're not doing anything wrong. A lot of them, you know,  
12 laborers, cooks that are getting hired by the Chinese money  
13 laundering organizations to open bank accounts using  
14 fictitious high quality Chinese passports with fictitious  
15 identities. So by doing that, if the bank noticed  
16 suspicious activity, they will file the report. The problem  
17 is that the report is being filed on a person that doesn't  
18 exist.

19       The other method that they're are utilizing is the  
20 insider threat method. We have encountered more than a few  
21 cases in where the Chinese modern organization has, number  
22 one, has tried to bribe bank officials at the different bank  
23 branches so they can, you know, make them look the other way  
24 when opening bank accounts using fictitious high quality  
25 Chinese passports, or to verify if the bank accounts that

1 they have opened through the money mule system that I just  
2 described are being monitored by law enforcement agencies.

3 The other thing that they're using by placing members  
4 of the organization within the bank branches, is to not only  
5 monitor the account, but to control and change the addresses  
6 once the bank accounts are open. They are changing the  
7 addresses and the phone numbers to addresses and phone  
8 numbers that they control so they will receive the ATMs to  
9 those particular addresses and the phone numbers.

10 So, if the bank calls to check on the client, it will  
11 be a member of the organization answering the phone on the  
12 other line. So, again, we're not seeing a degrading of the  
13 SAR system. What we're seeing is new methods to overcome  
14 the SAR regulations.

15 The Chairman. Sounds sort of like an amateur version  
16 of a reverse law enforcement covert operation in which you  
17 run an agent undercover into an organization and have to do  
18 a lot of backstopping with phone numbers that somebody  
19 answers that pretend to be the company on the resume that  
20 isn't real because they're an undercover.

21 Mr. Mayoral. As a former undercover agent, yes.

22 The Chairman. Yeah, they're using our technique. Okay  
23 --

24 Mr. Nelson. Can I just --

25 The Chairman. -- we've got our hands full. Yes,

1 please.

2 Mr. Nelson. We put out a national money laundering and  
3 risk assessment that outlines many of the typologies that  
4 we're seeing based on, obviously, great support from our law  
5 enforcement partners and totally agree with everything  
6 relayed, but still seeing, you know, sort of bulk cash and  
7 all of the traditional forms of money laundering that we've  
8 seen for quite a while. The layering in of these additional  
9 techniques, particularly as it relates, obviously, to the  
10 rise of Chinese money laundering organizations, but also the  
11 use of virtual assets to facilitate the purchase of  
12 precursor chemicals and other key inputs into the fentanyl  
13 trafficking.

14 The Chairman. Well, thank you-all. Anything further?

15 Senator Grassley. No, I'm good.

16 The Chairman. Good to go. First of all, thank you for  
17 what you're doing. We have a lot to take away from your  
18 testimony. I hope your takeaway is that on this committee,  
19 we take this question of degrading the capability of the  
20 international shadow economic system very seriously. And I  
21 don't believe that we have enough effort dedicated to that  
22 at this point.

23 And I would be happy to hear proposals from the  
24 administration, either to ramp up existing efforts or to  
25 coordinate better existing efforts or to engage in new

1 efforts to go after that. You've heard me say how important  
2 I think this is. I think it is a clash of civilizations,  
3 and we are more or less at war with those on the other side  
4 of this crime and autocracy clash. And we've got to go  
5 after, particularly on our own rule of law side, those who  
6 are giving aid in comfort to, or aiding and abetting -- pick  
7 your choice of language -- the enemy.

8 So do come at us, and do know that in the Corporate  
9 Transparency Act, Senator Grassley, who's a very senior and  
10 respected Republican ranking member, and when they're in  
11 charge, Chairman Senator Graham, ditto, very senior ranking  
12 member went in charge. Chairman Senator Crapo, ranking  
13 member went in charge. Chairman Senator Warner, chairman of  
14 Intelligence. Senator Brown, chairman of Banking. Myself,  
15 chairman here and of Budget.

16 You've got some pretty serious people who pushed very  
17 hard to get that Corporate Transparency Act done and want to  
18 see it succeed and want to know what else needs to be done  
19 to protect our country from all of this.

20 So, don't hesitate to come back to us and I don't know  
21 if we need to do anything in terms of -- do we have  
22 questions for the record? Well, yes, we do because Mr.  
23 Kimbell said that he would produce some things for Senator  
24 Grassley. We'd like to get that back in a week, if we  
25 could. So, if you could take that back and see if you could

1 turn around the request that he made.

2 And with that, we'll adjourn the hearing. Thank you  
3 very much.

4 [Whereupon, at 3:19 p.m., the hearing was adjourned.]

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