

**Questions for the Record from Senator Sheldon Whitehouse
U.S. Senate Caucus on International Narcotics Control
“Opaque Shell Companies: A Risk to National Security, Public Health, and Rule of Law”**

- 1. Can you explain the role of Chinese money laundering organizations (CMLOs) in the synthetic opioids trade?**

CMLO's do not distinguish between any type of drug money laundering. They behave and operate as a business to generate profit across borders and on behalf of criminal organizations.

- 2. Can you explain how CMLOs “typically” launder money?**

Essentially, exploiting the free-market businesses and those cash-generating businesses vulnerable to commingling legitimate currency with illicit currency into the banking system.

- 3. Relatedly, can you explain the most common placement techniques (smurf networks, cash real estate, trade-based money laundering, bulk cash smuggling, etc.) that CMLOs use?**

First and foremost, generally, relying upon those cash-generating businesses, such as restaurants, gas stations, electronic and clothing businesses, convenience stores, etc, whereby, legitimate cash revenue is commingled with illicit cash from the drug trade or any other criminal activity, and deposited into those business bank accounts on a daily basis.

- 4. Is the existing U.S. AML framework sufficient to combat CMLOs? If not, what are some anti-money laundering vulnerabilities you observed in the financial sector?**

FinCEN currently restricts DEA from accessing the vast data of suspicious and transactional data to identify significant drug money launderers leading to those businesses and bank accounts laundering fentanyl proceeds. It is but requires updated rules, regulations and laws to submit suspicious activity and or transactional reports to a central depository such as FinCEN. Financial institutions must incorporate constant vigilance of existing and emerging financial instruments that can be used to launder illicit funds. This in turn, will allow law enforcement to ACCESS any related data during the course of their investigations for lead purposes and follow-up with legal process to those commercial and or banking institution. The critical factor is allowing law enforcement access to FinCEN data and compelling law enforcement to query any investigative lead as there is a reluctance by any agencies from pursuing such angles.

- 5. The U.S. banking industry has long been subject to anti-money laundering regulations – which additional industries are vulnerable or valuable to the financial schemes of CMLOs?**

Any and all industries involved in financial instruments, including social media companies such as META MARKETPLACE.

6. At the “Opaque Shell Companies: A Risk to National Security, Public Health, and Rule of Law” hearing, you said that DEA’s “capability to go after” drug financial networks was “not as robust as it used to be or it could be.” Should there be greater investment into financial investigations as part of the U.S.’ counter-narcotics strategy?

Yes, not only for counter-narcotics, but also, to pursue narco-terrorist organizations that are now funded by drug trafficking. Fully employing DEA’s authority under Title-21 narcotic laws, the most robust sentencing guidelines that results in a stronger deterring effect. Applying Title-18 money laundering statutes alone, is insufficient as a deterrent, and is more effective with a stronger predicate offense such as a Title-21 drug violation. The longer the sentencing, the attractive the incentive for the defendant to cooperate and identify co-conspirators and the masterminds of the criminal enterprise, whether in the United States or abroad. DEA’s expansive reach in 91 foreign cities, along with their partner nations’ drug laws, compel DEA’s ability to charge, indict, to seize drugs and money, and or extradite drug traffickers and associated money launderers to the United States, or have them imprisoned in those nations that have mutual criminal drug laws. DEA’s money laundering operations have diminished since 2016, after the DEA’s Financial Operations Division in HQS was relegated to a unit with less than 20 personnel, less than half of what it used to be. Following the money and using money as an operational and investigative tool, allowed DEA to successfully arrest some of the most dangerous and violent criminals and terrorists throughout the world. Chapo Guzman, Victor Bout, Hezbollah and Taliban terrorist/traffickers. Currently, however, DEA’s Financial Operations have a limited budget and more restrictions to conduct financial operations and investigations to support DEA and interagency field offices, thereby, allowing major drug trafficking organizations to safely keep more of their drug profits safely with limited scrutiny. This in turn, allows the cartels and other DTO’s and narco-terrorists, to continue producing and/or trafficking more drugs, commit more violence, acquire more weapons, corrupt and exploit the rule of law, and kill more people, and destabilize fragile democratic governments. In the early 1990’s, DEA had established the Multi-Agency Financial Investigations Center (MAFIC) that hosted over 5 different federal law enforcement agencies to include FinCEN and an intelligence agency to coordinate leads to pursue the Medellin and Cali Cartels, and the Chinese TRIADS involved in SE Asian heroin trafficking that led to hundreds of indictments and arrests of significant traffickers and insurgents in Asia and South America by following the money trail upstream to the owners of the illicit funds, and applying the stringent narcotic laws. These two efforts were called, The Linear and Linkage Operations under the DEA’s Kingpin Strategy.

7. In your written testimony, you wrote that illicit narcotics are “shipped through the U.S. mail parcel system.” Is this a common drug trafficking practice within the U.S.? Did your teams receive adequate cooperation from parcel mail carriers?

Yes and no. It is a major problem that allows illicit drugs to flow freely as any other legitimate package. There are insufficient US Postal Inspectors and although the US Postal Inspections Service is applying critical measures such as data analytics to identify the senders and receives of tens of thousands of parcels containing gram quantity to 10 to 15 kilograms of cocaine, heroin, methamphetamine and even fentanyl pills, Enforcement to arrest and seize are limited. Also, the USPIS lacks authority to share such data with the DEA’s Special Operations Division. Although, there are a handful of USPIS personnel in the DEA SOD, the data is not fully deconflicted against

DEA SOD drug data. The rate of drugs being trafficked via the US postal and parcel systems has overwhelmed the private parcel companies and the US Postal Service. Having intelligence and information is worthless if enforcing the laws to seize drugs and money, arresting the traffickers and maximizing prison sentences are limited and restricted.

8. Can you elaborate on how shell corporations and obscured ownership can limit the effectiveness of OFAC sanctions?

US states and offshore countries in the Caribbean, Europe and even in Asia, allow individuals to open companies with limited scrutiny. Once these companies are established, they can create subsidiaries and other types of entities disguised as charity or humanitarian organization. Once these companies and entities are established, they can open bank accounts, investment accounts, and cryptocurrency accounts, subsequently, acquiring all facets of financial instruments that can be used to launder illicit proceeds and commingle such with legitimate proceeds of legitimate commerce. They can then, funnel funds through various cross border banks, respondent and correspondent banks, and investment firms, and cryptocurrency exchanges, especially, through nations with limited cooperation with the United States. OFAC sanctions are only effective IF and ONLY IF the targeted entity has much to lose in a US-targeted sanction, otherwise, “name and shame” is useless. In addition, OFAC pulled out of DEA Special Operations Division in the fall of 2022, and has had limited coordination with DEA since.

**Questions for the Record from Senator Charles E. Grassley
U.S. Senate Caucus on International Narcotics Control
“Opaque Shell Companies: A Risk to National Security, Public Health, and Rule of Law”**

- 1. In a February 2024 Congressional Research Services report, U.S. officials expressed concerns that Hezbollah is engaged in drug trafficking and money laundering activities in the Tri-Border Area of Argentina, Paraguay, and Brazil to support its operations.**

- a. What have you seen Hezbollah doing in South America?**

- Primarily, to generate hundreds of millions in revenue from charities, criminal activities, and legitimate business and commerce.

- b. What more should the United States do to create security and stability in the Western Hemisphere?**

- Increase DEA’s budget 3-fold from \$3 billion to \$9 billion; compel the US Department of Justice to prosecute drug money crimes under Title 18 and Title 21. DEA is currently broke as of April 2024. The 5.2% federal salary increase has consumed most of DEA’s 2024 budget. Instead of appropriating separate funding for the salary increase, DEA operational budget has been slashed to the point, funding for DEA investigations and operations has limited its ability to pursue fentanyl, heroin, cocaine, methamphetamine and even narco-terrorist investigations. Field agents cannot travel to coordinate critical investigations. In addition, DOJ has restricted DEA from fully engaging in offensive financial operations/investigations after an OIG investigation that resulted in a number of findings from DEA financial operations and after the arrest of a corrupt DEA Agent. Instead of allowing DEA to apply corrective measures, the DOJ essentially, limited DEA from effectively and fully using its authorities to conduct proactive financial operations/investigations to move up the chain to the Cartels. Furthermore, DOJ reportedly, restricted all DOJ prosecutors from forfeiting seized cash from DEA investigations, that clearly are from drug trafficking, especially, from Chinese money couriers. These couriers could help identify the source of the cash and ultimately, the drug sources if AUSA’s would fully prosecute and forfeit the drug cash seized off the streets. Tens of millions of dollars in cash are being released by DEA and other agencies due to federal prosecutors’ unwillingness to enforce federal laws.

- 2. In your written testimony before the Senate Caucus on International Narcotics Control on the topic of Opaque Shell Companies: A Risk to National Security, Public Health and Rule of Law, you wrote, “Currently, Chinese organized criminal networks are laundering billions of dollars’ worth of marijuana cultivated throughout thousands of indoor grows and farms in the United States.”**

- a. Where are these indoor grows and farms in the United States?**

- The majority are established in US states that have decriminalized marijuana. They operate with impunity as federal prosecutors are reluctant to charge anyone with marijuana, no matter the amount. State and local prosecutors are also reluctant unless, there is a violent crime involved. And the majority of Chinese marijuana cultivators are non-violent. However, the majority of Chinese-cultivated marijuana makes its way to the east and west coasts and sold to violent gangs

such as the Latin King, Bloods, Crips, MS-13 and even motorcycle gangs, where they in turn, sell and traffic the marijuana locally, to generate millions in profits.

b. What is the percentage of indoor grows and farms legally registered and not registered in the respective state?

There are no documented numbers to determine such. All unregistered grows are clandestine and hidden among farms and neighborhoods. DEA does not track such because DEA does not pursue marijuana investigations due to reluctance from the local US Attorney's Office and federal prosecutors.

c. Who are being employed at these indoor grows and farms?

The majority of the workers are illegal Chinese or other Southeast Asian migrants seeking to earn a low salary or pay off their human trafficking organizers.

d. Are the Chinese migrants entering into the United States – legally and illegally – being employed at these indoor grows and farms?

Most are illegal entering from Mexico and Canada, however some are recruited on WeChat social media from major cities in the US currently on a US visitor visa.

e. If these Chinese migrants are being employed at these indoor grows and farms, are they being exploited by these Chinese organized criminal networks? If so, how?

Minimal to no pay. Exploited as slaves by forcing them to pay off their smuggled entry into the United States to the Triads.

f. What crimes are occurring at these indoor grows and farms and can you provide specific examples of ancillary crimes occurring from these grows and farms?

From open source reporting, there have been a few murders but generally, the Chinese OC groups prefer to be discreet and quiet to avoid any law enforcement attention.

3. How are Chinese organized criminal networks able to launder billions of dollars' worth of marijuana cultivated from indoor grows and farms in the United States?

a. If Chinese organized criminal networks are using our U.S. financial system to launder proceeds from marijuana sales, and U.S. financial institution cannot have a banking relationship with these grows and farms, how does it continue to occur?

The funds are not declared as marijuana proceeds. The funds are transported to major metropolitan cities with large Chinese communities with small cash generating businesses that commingle the marijuana funds with the legitimate business funds, such as restaurants, gas stations, convenience stores, electronic and clothing stores, etc.

b. Will there continue to be a black market for laundering illicit proceeds if there is legislation that allows for marijuana grows and farms to use the U.S. financial system?

There will always be a black market either way, as marijuana proceeds are laundered with fentanyl, heroin, methamphetamine and cocaine proceeds. Furthermore, declaring deposits of marijuana-generated proceeds will compel any legitimate operator to pay state and local taxes.

c. What does Congress need to do to help U.S. law enforcement combat these criminal networks from laundering billions of dollars through our financial institutions?

Enforce the current laws fully. Compel the US DOJ to prosecute fully, even, the lowest level trafficker and money courier. There is no difference from a 17-year-old fentanyl trafficker with 25 pills and a Mexican Cartel transporting 500,000 pills; IT ONLY TAKES ONE PILL TO KILL. However, current DOJ and many state and local prosecutors and judges will release a defendant if there is no violence and no one was harmed, until someone dies. This is the current state of our nation, resulting in over 115,000 deaths a year and growing. It's not just one variable that can stop this. This requires multiple efforts at many levels coordinating and synchronizing the full force of the US Government and the US private sector industries. I was the DEA point man to all the social media companies from 2015 to when I retired in November 2022, and made significant strides in educating these companies on the methods and techniques of fentanyl and other drug trafficking, including, Chinese precursor chemical trafficking. These efforts resulted in at least 10 million accounts and materials removed from the various social media outlets.

4. In your written testimony, you wrote, "Using Trade-Based Money Laundering and parallel funds and asset transfers, these drug proceeds ultimately, end up either as high value assets and investments for wealthy and Chinese government officials through North America..."

a. How are wealthy and Chinese government officials able to use illicit proceeds to purchase high value assets and investments?

Attached is my written testimony to the House Subcommittee on the CCP, dated 16 April 2024, and used to prepare the Committee's final report: CCP's Role in the Fentanyl Crisis. This outlines the answer.

b. What high value assets and investments are being purchased?

Real estate, high-end assets such as jewelry, automobiles. Also, college tuition, vacations, debt payments, prepaid credit cards and debit cards with an unlimited slush fund.

c. What areas of the United States are being targeted?

Major cities throughout the United States to include, rural areas with large available land for sale.

d. Why are those areas of the United States being targeted?

Value and discreetness and no scrutiny and no accountability.

e. What are the vulnerabilities to the United States by allowing this to happen?

There is no deterrent the continuation of the deadly drug crisis that allows easy unlimited access to the United States to maximize profits for the Mexican and Colombian Cartels. The profits go right back into drug production, arms and weapons acquisition, and corrupting the rule of law.

f. What does Congress need to do to address this?

Allow DEA to enforce its authorities and mission. I have attached my testimony for the House Financial Services Subcommittee Follow the Money on 23 March 2023 that provides effective solutions to this crisis.