

MEMORANDUM

To: Members of the Committee on Financial Services

From: Financial Services Committee Majority Staff

Date: March 20, 2023

Subject: March 23, 2023, National Security, Illicit Finance, and International Financial Institutions Subcommittee Hearing Entitled “*Follow the Money: The CCP’s Business Model Fueling the Fentanyl Crisis.*”

On Thursday, March 23, 2023, at 10:00 a.m. (ET), the Subcommittee on National Security, Illicit Finance, and International Financial Institutions will hold a hearing entitled “*Follow the Money: The CCP’s Business Model Fueling the Fentanyl Crisis.*” The purpose of this hearing is to better understand the best possible methods to successfully combat the illicit financing fueling the fentanyl crisis. Testifying at the hearing will be:

- **Jonathan Cassara:** Special Agent, U.S. Treasury (Retired), Author, *CCP Inc. Transnational Crime and Money Laundering*
- **Donald Im:** Assistant Special Agent in Charge, Chemical, Pharmaceutical, Cyber Section DEA Special Operations Division (Retired)
- **Celina B. Realuyo:** Adjunct Professor, The George Washington University
- **Jason Grellner:** Vice President -Healthcare, Evolv Technology
- **Gretchen Peters:** Executive Director, Alliance to Counter Crime Online

Background

There is broad bipartisan agreement that the ongoing opioid epidemic is one of the most serious and consequential threats facing our nation and people, and that it is increasingly systemic. The current epidemic is pervasive throughout our society. This hearing provides an opportunity to gain a greater understanding of the illicit financing that is fueling the fentanyl crisis and the most promising methods to combat the crisis.

The Growing Fentanyl Crisis

Fentanyl is a potent synthetic opioid drug approved by the Food and Drug Administration for use as an analgesic (pain reliever) and anesthetic. It is approximately 100 times more potent than morphine and 50 times more potent than heroin as an analgesic and is currently a Schedule II narcotic.¹ Deaths resulting from synthetic opioids, primarily fentanyl, totaled 782 in 2000, but rapidly increased over the last two decades. As of 2021, 70,601 Americans died as a result of synthetic opioid overdoses.² As of 2020, 82.3 percent of all opioid-involved overdoses were the

¹ [DEA Drug Information: Drug Scheduling](#)

² [NIH Trends & Statistics: Drug Overdose Death Rates](#)

result of synthetic opioids, and last year almost 70 percent of all drug overdose deaths were caused by fentanyl.³

Fentanyl is particularly deadly given its potency. One gram of fentanyl, about the size of a pack of sugar, is capable of killing 500 people. This potency contributes to the growing focus on fentanyl production and distribution by cartels, since smuggling significantly smaller quantities of the substance generates the same profits as other illicit substances. The drug's potency is also the driving factor for mixing it with other illicit substances. Cartels cut drugs like heroin, cocaine, fake Oxycontin, and fake Xanax pills with fentanyl as a cheap way to strengthen the effects of those substances. Fentanyl also garners high profit margins for cartels, with the DEA reporting that a pill costs on average approximately 13 cents to produce but can be sold on U.S. streets for 10 dollars or more.⁴

Production of Fentanyl

China has been and remains the primary source of fentanyl in global circulation. Historically, China produced fentanyl in its final form and distributed it directly to America through mail and across the southern border in partnership with several cartels.⁵ In 2017, China-sourced fentanyl, by weight, accounted for 165 kilograms of the total 171 kilograms seized from international mail.⁶ This practice began to shift in 2019 when the previous administration pressured the Chinese Communist Party (CCP) to reclassify and control all forms of fentanyl. This initially resulted in modest reductions of seizures of fentanyl flowing from China into the U.S. However, while the CCP implemented controls on fentanyl in its final form, it did not place similar controls on the synthetic precursor chemicals used to produce fentanyl.⁷

Since 2019, Chinese manufactures and traffickers have adapted their strategies and business models to primarily producing the precursor chemicals and outsourcing final production to cartel laboratories in Mexico.⁸ These cartels procure the fentanyl precursor compounds, which are often still legal for production in and export from China. In addition, manufacturing equipment, such as pill presses, are also produced and exported from China.⁹ There has been concern these precursor chemicals could be, and in some cases, are produced in other nations. However, almost all are still produced and distributed by the more than 160,000 Chinese chemical companies in existence.¹⁰

Unlike other more complex drug compounds, the synthetization of fentanyl is relatively basic and manufacturing instructions are readily available on the Clearnet and Darknet.¹¹ The ability to easily

³ [CDC: Drug Overdose Deaths](#)

⁴ [DEA Report: The Opioid Threat in Pennsylvania](#)

⁵ [DEA Report: Fentanyl Flow to the United States](#)

⁶ [DEA Report: 2018 National Drug Threat Assessment](#)

⁷ [2021 INCSR-Volume I: Drug and Chemical Control \(As submitted to Congress\) - United States Department of State](#)

⁸ [DEA: FY 2020 Performance Budget Congressional Budget Submission](#)

⁹ [Int J Environ Res Public Health. 2022 Feb; 19\(4\): 2074. Published online 2022 Feb 12.](#)

¹⁰ [Statement of Anne Milgram Administrator Drug Enforcement Administration U.S. Department of Justice.](#)

¹¹ The primary difference between the Clearnet and the darknet is the ability to be anonymous. When one is using the Clearnet, it is difficult to be truly anonymous. If a devices' IP address and MAC address are not hidden in any way, then it is identifiable too. The same rules apply to the darknet, but the software which accesses the darknet

manufacture fentanyl also contributes to the cartels' growing preference for the drug. It is significantly more reliable and profitable than seasonally-produced illicit substances such as cocaine, marijuana, and heroin. As discussed, the ability to easily acquire the machinery needed to produce final illicit product adds to the ease of production, often within U.S. borders. Under the Controlled Substances Act, participants in a transaction involving a tableting or encapsulating machine shall, "keep a record of the transaction for two years after the date of the transaction," including "the date of the regulated transaction, the identity of each party to the regulated transaction, ...a description of the tableting machine or encapsulating machine, and a description of the method of transfer," and provide this record to the Attorney General of the United States.¹²

Scope of Trafficking

U.S. Customs and Border Protection (CBP) seized 4.8 thousand pounds of fentanyl in 2020, or enough to kill over a billion people.¹³ This figure more than tripled in just two years to 14.7 thousand pounds in 2022. In the first two months of 2023, CBP has already seized 12.5 thousand pounds. While some may point to these statistics as evidence of increased border security, it more likely indicates that increasingly vast quantities continue to penetrate our borders. Internationally, the trafficking of illicit synthetic opioids generates revenues worth tens of billions of dollars annually.¹⁴

often is designed to keep people anonymous. On the Clearnet, many of the websites one visits, and the browser used can produce a comprehensive profile on the individual.

¹² 21 U.S.C. § 830.

¹³ CBP: Drug Seizure Statistics FY2023 & DEA: Facts about Fentanyl.

¹⁴ FATF: Report on Money Laundering from Fentanyl and Synthetic Opioids, November 2022.