

**THE TRAFFICKERS' ROADMAP: HOW BAD
ACTORS EXPLOIT FINANCIAL SYSTEMS
TO FACILITATE THE ILLICIT TRADE IN
PEOPLE, ANIMALS, DRUGS, AND WEAPONS**

HEARING

BEFORE THE

SUBCOMMITTEE ON NATIONAL SECURITY,
INTERNATIONAL DEVELOPMENT AND
MONETARY POLICY

OF THE

COMMITTEE ON FINANCIAL SERVICES

U.S. HOUSE OF REPRESENTATIVES

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**THE TRAFFICKERS' ROADMAP: HOW BAD
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TO FACILITATE THE ILLICIT TRADE IN
PEOPLE, ANIMALS, DRUGS, AND WEAPONS**

Wednesday, March 4, 2020

U.S. HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON NATIONAL SECURITY,
INTERNATIONAL DEVELOPMENT
AND MONETARY POLICY
COMMITTEE ON FINANCIAL SERVICES,
Washington, D.C.

The subcommittee met, pursuant to notice, at 10:02 a.m., in room 2128, Rayburn House Office Building, Hon. Emanuel Cleaver [chairman of the subcommittee] presiding.

Members present: Representatives Cleaver, Perlmutter, Sherman, Vargas, Gottheimer, McAdams, Garcia of Illinois; Hill, Lucas, Williams, Emmer, Gonzalez of Ohio, Rose, Riggleman, Timmons, and Taylor.

Ex officio present: Representative McHenry.

Also present: Representatives Gonzalez of Texas and Pressley.

Chairman CLEAVER. The Subcommittee on National Security, International Development and Monetary Policy will come to order. Without objection, the Chair is authorized to declare a recess of the subcommittee at any time. Also, without objection, members of the full Financial Services Committee who are not members of this subcommittee are authorized to participate in today's hearing.

Today's hearing is entitled, "The Trafficker's Roadmap: How Bad Actors Exploit Financial Systems to Facilitate the Illicit Trade in People, Animals, Drugs, and Weapons.

I now recognize myself for 5 minutes to give an opening statement.

My district is the hometown of former President Harry Truman. He lived in Independence, Missouri, which is sort of a suburb of Kansas City, Missouri. It is also the site of the Harry S. Truman Presidential Library, and the home of many, many hardworking middle-class Americans.

In November of last year, a Federal raid involving Independence, Missouri, police officers resulted in the arrest of 21 individuals in a human trafficking sting operation. The arrest reminds me that the scourge of trafficking is all around us. My home State of Missouri ranks 16th in the country for human trafficking cases, with 114 cases reported just last year.

Our country is among the top three origin points for this wicked scheme and system. Today, 24.9 million people worldwide are victims of human trafficking. This reality grips our heart and grabs our attention. However, it is a slice of a much broader and invidious structure. Trafficking in all forms—drugs, animals, weapons, humans, whatever—is a mechanism to move and clean dirty money. It allows for criminal systems to flourish, from ISIS fighters who have looted World Heritage sites and sold ancient artifacts to bankroll their war machine, to those who sell counterfeit medication to desperate and ailing people.

Trafficking is an enormous financial enterprise, amounting to somewhere between \$1.6 trillion and \$2.2 trillion. The Department of the Treasury's 2020 National Strategy for Combating Terrorists and Other Illicit Financing highlights that, "the same strength that makes the United States an attractive destination for legitimate investment—a large economy; and an open business climate for investment and financial services—also can attract criminals and other illicit actors seeking to hide or disguise their ill-gotten gains or fund their dangerous plots."

This illicit system knows no race, creed, nor party affiliation. It unifies us as a potential victim, and today unites us in opposition to this common threat.

It is for this reason that I am excited, under the leadership of Full Committee Chairwoman Waters, to join with Subcommittee Ranking Member Hill in launching this initiative to directly confront trafficking in all forms. This hearing will be the first in a series aimed at examining curtailing trafficking at its roots. As many of my colleagues will agree, we have done a lot of legislative nipping at the fringes of this problem. It is now time for us to strike at its core.

This hearing will lay the framework for this conversation, and hopefully will provide our committee with insight and future direction. As we start this dialogue, it is important to engage from a frame of common understanding. We know that there is cross-cutting and collaboration across trafficking networks within our system. There is a convergence in human trafficking and drug trafficking roots as well as the weapons of mass destruction (WMD) trafficking and narcotics trafficking networks.

There are common mechanisms and vulnerabilities that trafficking facilitators are exploiting within our financial system to enable their illicit activities. We also know that the crime of trafficking, itself, is evolving. This past January, a joint investigation involving the United States, Germany, the Netherlands, Northern Ireland, and the United Kingdom helped take down a website which the Justice Department says sold billions of stolen usernames, passwords, and other data. One credit union in my district notes that 20 percent of their cards were affected by data breaches in 2019. And CNBC reported that hackers may have accessed over \$8 billion in consumer records in 2019.

So, I am eager to start this conversation and hear from you all about these issues as well as the legislative issues before us today, championed by my colleague, Mr. Foster, and Congressman McAdams. I look forward to hearing from all of you.

I now recognize the ranking member of the subcommittee, Mr. Hill, for 4 minutes for an opening statement.

Mr. HILL. Thank you, Mr. Chairman, for convening this hearing. And I thank our witnesses for participating today. This is indeed a topic that we care about deeply on both sides of this dais. I appreciate Chairwoman Waters caring about it and helping lead this human trafficking initiative within our committee.

Similar to our last subcommittee hearing, in the 5 years that I have been working on illicit finance issues, I don't remember analyzing it from the point of view of trafficking, so I look forward to an interesting dialogue and learning ways to mitigate these threats.

In my home State of Arkansas, drug trafficking continues to be a heightened concern. I have heard stories from many heartbroken Arkansans detailing the opioid crisis that has claimed the lives of their young ones. We cannot allow more families to be destroyed by the opioid crisis, which is killing more than 130 Americans a day.

Overdoses are rising across Arkansas and fentanyl continues to be a growing threat in our communities. That is why I am proud to lead H.R. 2483, the Fentanyl Sanctions Act, with my friend, Congressman Rose of New York, which is the first-ever fentanyl sanctions effort in the House. The legislation would apply pressure on the Chinese government to honor their commitment to make fentanyl illegal, and provide the United States with more tools and resources to go after illicit traffickers in China, Mexico, and other countries.

A couple of years ago, I had the pleasure of meeting Vanessa Neumann, a Venezuelan-American diplomat who now consults on ways to dismantle illicit finance. Her 2017 book, "Blood Profits: How American Consumers Unwittingly Fund Terrorists," details a variety of ways that the \$400 billion counterfeiting industry is funding terrorism around the world.

She outlines that 11 percent of the approximately 5.7 trillion cigarettes smoked every year are illicitly traded. The illicit tobacco trade is larger than the illicit trade of oil, wildlife, timber, arts and cultural property, and blood diamonds, combined. Furthermore, the funding of tobacco trafficking often comes from developed economies, including the United States. To that end, I am disappointed that we were not able to have a tobacco trafficking witness here today for the panel. I understand that this industry can often be politically charged in nature and can take away from the larger discussion. However, it would have been valuable to learn just how persistent tobacco trafficking is financed and how it is benefitting terror organizations.

Today, I am also interested in learning more about the financing of trafficking and how and when the lines between terror financing and trafficking financing become blurred. As I understand it, following the aftermath of the 9/11 attacks, President Bush invoked an Executive Order which has made it more difficult for terrorist groups to access their funding. As a result, global terrorism has merged with organized crime to create financing workarounds. These intertwined transnational relationships are complex and very adaptive.

And with that, let me yield the balance of my time to my friend from North Carolina, the ranking member of the Full Committee, Mr. McHenry.

Mr. MCHENRY. I thank the ranking member for yielding, and I thank the panel for being here. This is quite a challenging issue for us to tackle. This committee has the capacity, and has the jurisdiction to limit, inhibit, impair, and delay the ability of traffickers to fund themselves. So we are looking for ideas to meet this challenge, and there is consensus on both sides of the aisle that we have to do something. We have to take action.

So I am grateful that we have a bipartisan panel and a bipartisan hearing, and I thank Chairman Cleaver for convening this hearing, and I look forward to the testimony.

Chairman CLEAVER. Thank you. Today, we welcome the testimony of five witnesses. Our first witness today is Dr. Togzhan Kassenova. Thank you for being here. Dr. Kassenova is a Senior Fellow with the Project on International Security, Commerce, and Economic Statecraft at the Center for Policy Research, SUNY-Albany; a Senior Nonresident Scholar at the Institute of International Science and Technology Policy at the Elliott School; and a Nonresident Fellow at the Nuclear Policy Conference at the Carnegie Endowment for International Peace from 2011 to 2015. She has served on the United Nations Secretary-General Advisory Board on Disarmament Matters.

Our second witness, Mr. Adkins, has nearly 20 years of experience working with vulnerable populations in over 50 nations across Africa, the Middle East, and Latin America. He has held leadership positions at the National Democratic Institute; InterAction; and the Subcommittee on Africa, Global Health, Human Rights and International Organizations, among others. He is currently a Lecturer on U.S. Policy, and African and Security Studies at Georgetown University.

Our third witness is Celina B. Realuyo. Thank you for being here. She is Professor of Practice at the William J. Perry Center for Hemispheric Defense Studies at the National Defense University, where she focuses on U.S. national security, illicit networks, transnational organized crime, counterterrorism, and threat finance issues in the Americas. As a former U.S. diplomat, an international banker with Goldman Sachs, a U.S. counter-terrorism official, and a Professor of International Security Affairs at the National Defense Georgetown, George Washington, and Joint Special Operations Universities, Professor Realuyo has over 2 decades of international experience in the public, private, and academic sectors.

Our fourth witness is Gretchen Peters, an authority on the intersection of crime and terrorism, money laundering, and transnational crime. She is Executive Director of the Center on Illicit Networks and Transnational Organized Crime. She chairs the Alliance to Counter Crime Online. She serves on the Advisory Board of the Center on Economic and Financial Power, and previously co-chaired an OECD Task Force on Wildlife and Environmental Crime.

Our final witness is Angel Nguyen Swift, who is an Advisor and Independent Consultant with Enigma Technologies, a data intel-

ligence company, where she most recently worked as the Vice President of Compliance and Financial Crime Solutions. She is also the creator of the Stand Together Against Trafficking (STAT) project, which connects the anti-human-trafficking community to identify and share financial indicators of human trafficking activity. To further this mission, she has partnered with Polaris, the Association of Certified Anti-Money Laundering Specialists, and Enigma to leverage technology to empower the sharing of these financial indicators across the anti-financial-crime community.

Thank you all for being here. Witnesses are reminded that your oral testimony will be limited to 5 minutes. And without objection, your written statements will be made a part of the record.

We will begin with you, Ms. Realuyo. You have 5 minutes.

**STATEMENT OF CELINA B. REALUYO, ADJUNCT PROFESSOR,
THE GEORGE WASHINGTON UNIVERSITY ELLIOTT SCHOOL
OF INTERNATIONAL AFFAIRS**

Ms. REALUYO. Thank you, Chairman Cleaver, Ranking Member Hill, and members of the House Financial Services Subcommittee on National Security, International Development and Monetary Policy for this opportunity to appear before you today to testify on the threat posed by global illicit networks to U.S. national security.

Illicit networks include terrorists, criminals, rogue states, and their facilitators. They engage in a diverse set of activities including human, drug, and arms trafficking; kidnapping; extortion; and money laundering. These nefarious networks share land, air, maritime, and cyber domains, tactics, and financial facilitators around the world.

While the crimes they commit are not new, globalization has supercharged criminality in terms of scale, geography, income, and sadly, the violence that accompanies it. From unprecedented drug overdose deaths here in the United States to record cocaine production in Colombia, and the dramatic humanitarian crisis in Venezuela, global illicit networks are threatening the prosperity and security of the Western hemisphere.

In Venezuela, external actors like Cuba, Russia, China, Iran, Hezbollah, Turkey, and Colombian armed groups, along with the illegal gold, oil, and narcotics trade, are sustaining Nicolas Maduro's authoritarian regime, whose tyranny and economic malpractice has led to over 5 million Venezuelans fleeing their country.

Meanwhile, Mexican cartels capitalize on Mexico's proximity to the U.S. as a destination country for migrants and for illegal drugs. The cartels operate like corporations, assessing market supply and demand, securing supply chains, and financing their operations. They engage in all types of trafficking, including drugs, migrants, guns, gasoline, and even avocados. Just as they diversify their criminal activities, they launder their proceeds through banks, money services businesses, bulk cash smuggling, trade-based money laundering, front companies, and in cyberspace.

Sadly, a culture of corruption, impunity and weak government institutions enables these Mexican cartels. They are extremely well-armed and use violence to empower themselves, resulting in a record 35,588 homicides in Mexico in 2019. They continue to control lucrative smuggling corridors across our southwest border and

partner with Colombian traffickers, Central American gangs, and international facilitators.

Despite the extradition of the notorious leader of the Sinaloa cartel, El Chapo Guzman, Sinaloa remains powerful and has gone global, distributing drugs to over 50 countries as far away as Australia, and engaging with Russian arms dealers and Chinese money launderers to support its operations.

The Mexican cartels are actually fueling our opioid epidemic in our country. Illicit fentanyl, 50 times more potent than heroin, is smuggled into the U.S. directly through the Postal Service from China, but increasingly across our southern border. Orders and purchases from China are brokered online, and financed through a variety of mechanisms, including online payment processors and virtual currencies.

The marketplace for narcotics like heroin, fentanyl, and, increasingly, methamphetamines, has expanded with the use of technology and the darknet that provides efficiency, ease of payment, anonymity, and convenient delivery by mail. This online evolution is truly disrupting the traditional marketing and distribution aspects of narcotics trafficking.

So you might ask, what are we doing to counter the Mexican cartels and address the opioid epidemic? The U.S. and Mexico continue to strengthen their close cooperation to reduce demand, interdict drug flows, cut off the funding, and dismantle these cartels. Since the start of the Merida Initiative in 2008, the U.S. has helped Mexico more effectively eradicate poppy, detect labs, follow the money, prosecute drug traffickers, and enhance border security.

Cartel violence in Mexico made world headlines last October, when Mexican Security Forces, overpowered by the Sinaloa cartel in a violent gun battle, were forced to release one of El Chapo's sons who was wanted for drug trafficking in the United States. Then in early November, criminal gangs ambushed and killed nine U.S.-Mexican women and children from the LeBaron family in Sonora, Mexico, sparking outrage on both sides of the border.

To counter the cartels and the opioid epidemic and the evolving drug trade, our two countries must continue to reduce demand and supply, counter money laundering, and enhance our cyber measures to monitor and, more importantly, fight the scourge of how these illicit networks are financing themselves. Both countries need to keep up with the rapid changes in the production, marketing, financing, and delivery of narcotics, particularly synthetics that are threatening the security and prosperity of our region.

Thank you for your attention, and I look forward to your questions.

[The prepared statement of Ms. Realuyo can be found on page 80 of the appendix.]

Chairman CLEAVER. Thank you very much. Mr. Adkins, you are now recognized for 5 minutes.

STATEMENT OF TRAVIS L. ADKINS, LECTURER, AFRICAN & SECURITY STUDIES, WALSH SCHOOL OF FOREIGN SERVICE, GEORGETOWN UNIVERSITY

Mr. ADKINS. Chairman Cleaver, Ranking Member Hill, and members of the subcommittee, thank you so much for the honor of invit-

ing me to testify today. I would like to begin with a note of sincere thanks for your leadership and elevation of the critical issues related to illicit trafficking and the ways in which it devastates individual lives, families, and communities, as well as the environment and national and global security.

I want to congratulate you all and thank you for launching the bipartisan Counter-Trafficking Initiative. This is exactly the kind of high-level and comprehensive effort needed to advance our legislative and law-enforcement capacities, as well as our efforts at transnational cooperation, providing us with the data, oversight, and information-sharing capacity to close the gaps in operational agility that we have in comparison to bad actors and illicit traffickers.

Over the course of today's hearing, we will hear much in the way of data and statistics, outlining the scope and scale of illicit flows. My hope is that the quantitative data will always be wed to the qualitative nightmare of the human beings caught in the web of trafficking in persons. This global phenomenon has destructive and far-reaching social, economic, and political implications for individuals and governments at the local, national, regional, and international levels. Though there is some variance by subregion in the form of exploitation, women and girls are the primary targets of human trafficking worldwide. While the exploitation of trafficked human beings takes place in a variety of forms, the two most prevalent are sexual exploitation and forced labor.

In terms of recent trends in the flows and movement of trafficked people, while human trafficking is a global and transnational challenge, the overwhelming majority of those detected are still within their countries of origin, not in foreign destination countries. Trend lines also make it clear that the international movements of trafficked persons is overwhelmingly from more impoverished regions into wealthier and more affluent countries in the world.

Since the almost universal ratification of the United Nations' Trafficking in Persons Protocol in 2003, there has been a surge in nations creating legislative schemes to criminalize human trafficking worldwide. This surge coincides with the increased reports of the detection of trafficking victims over the past several years. While this could indicate an increase in the number of trafficked persons, it is likely to also indicate the national capacity improvement of nations for data collection, trafficking, and detection of human trafficked individuals, and that they have improved.

While the subregions of sub-Saharan Africa and North Africa and the Middle East have seen improvements as well, they lag behind in detection and convictions, making them regions of relative impunity for human traffickers.

While human trafficking and its convergence with other forms of illicit trade are justifiably viewed as security threats in their utility to finance transnational criminal organizations and terrorist groups, these threats are also rooted in the deep development challenges posed by weak and ineffectual states, including poor governance, official corruption, extreme poverty, regional instability, unresolved conflict, and excessive disease burdens, issues which place African populations at greater risk for the abuse, exploitation, and trauma of human trafficking.

The illicit market for trafficking in persons has been linked to multiple crimes which enrich transnational criminal organizations and terrorist groups, including kidnapping, fraud, rape, commercial sex work, and the breaking of immigration and border laws, as well as money laundering and tax evasion. Trafficking in persons both converges with and helps to sustain transnational criminal organizations as well as terrorist organizations.

I will close by saying that to get to the heart of this challenge, we certainly must address the methods, tactics, and the financing mechanisms of criminal organizations, but also the enabling environments that support their existence and growth.

Thank you.

[The prepared statement of Mr. Adkins can be found on page 42 of the appendix.]

Chairman CLEAVER. Thank you, Mr. Adkins. Dr. Kassenova, you have 5 minutes.

**STATEMENT OF TOGZHAN KASSENOVA, SENIOR FELLOW,
PROJECT ON INTERNATIONAL SECURITY, COMMERCE, AND
ECONOMIC STATECRAFT (PISCES), CENTER FOR POLICY RE-
SEARCH, SUNY-ALBANY**

Ms. KASSENOVA. Chairman Cleaver, Ranking Member Hill, and distinguished members of the subcommittee, thank you for the opportunity to contribute to this hearing.

If a 10-kiloton nuclear bomb, like the one that North Korea tested, is dropped on Washington, D.C., a fireball of almost 500 feet in radius will cover the City. Within a half-mile radius, up to 90 percent of people could die without medical help, some of them within hours.

Stealing or buying a ready-made weapon is a next-to-impossible feat. The main path to a bomb is to procure components on the international market and then build a weapon. Proliferators buy good-quality goods from American, European, and Asian suppliers. This means they pay for these goods through the formal financial system, making financial institutions part of their proliferation schemes.

Financial institutions struggle with identifying transactions related to procurement, fundraising, and movement of money for illicit WMD programs. They do not have technical expertise on which goods are sensitive. They lack information on who will use these goods and for what purpose. The sanctions related software returns a high number of false positives, while such lists contain names of known proliferators and are not used for catching new bad actors or identifying those who hide under false identities.

Proliferators extensively use shell and front companies. They also abuse correspondent accounts, and that is the main vulnerability to the U.S. financial system. At the same time, financial institutions can be important players in the fight against proliferation, but to do that they need to improve their capacity for detection, and there are some simple steps that they can take.

For example, they can request more detailed information on the type of business from customers as part of service suitability for high-risk products like trade finance or wires. They can better scrutinize phone numbers and addresses. It is common for front and

shell companies associated with WMD procurement to share managers' addresses and phone numbers. They can adopt new tech solutions to monitor and trade finance instead of a manual review of trade documentation. This can involve, for example, blockchain-based trade finance platforms. They can also incorporate tailored geographical factors into transaction monitoring. We know, for example, that many front companies working on behalf of North Korea reside in specific municipalities in China.

Similar to money launderers, proliferators favor formal financial systems and rely on shell and front companies to avoid detection. But there are also important differences. Transactions related to WMD procurement look like legitimate commercial activity, and in addition to individuals' entities and transactions, the recent emphasis on goods on which financial institutions do not have expertise.

Despite the differences, it is worth approaching various kinds of illicit financing holistically. We know that proliferation agents engage in other types of financial crime. The most notorious case is North Korea. It fundraises, moves the funds, launders money, and pays for its WMD program via a global financial system. In some cases, proliferation financing was uncovered because of suspicious indicators related to money laundering.

As far as public-private partnerships are concerned, creating opportunities for all relevant actors to share information can help uncover such networks. For example, export control authorities have expertise on dual use and military goods and information on export license approvals and denials, as well as blacklists of violators. Customs and border security agencies have information on the movement of sensitive goods. This information can be extremely helpful to financial institutions. While financial institutions are constrained in terms of disclosing proprietary information, they can share their insights on the patterns that they see of suspicious financial flows, and these can detect proliferators as well as add to our understanding of how these networks operate and how they finance their activities.

Existing public-private partnerships, such as the FinCEN Exchange, or the Joint Money Laundering Intelligence Task Force (JMLIT) in the UK, and others are a great start. Going forward, it is worth considering how to involve small and medium-sized banks into such partnerships.

Finally, academic institutions, NGOs, and think tanks are becoming increasingly indispensable in confronting proliferation financing by contributing to research and capacity-building efforts, and they should be recognized as important actors and utilized fully as an available resource.

Thank you.

[The prepared statement of Dr. Kassenova can be found on page 51 of the appendix.]

Chairman CLEAVER. Thank you very much. Ms. Peters, you are now recognized for 5 minutes.

**STATEMENT OF GRETCHEN PETERS, EXECUTIVE DIRECTOR,
CENTER ON ILLICIT NETWORKS AND TRANSNATIONAL OR-
GANIZED CRIME (CINTOC), AND CHAIR, ALLIANCE TO
COUNTER CRIME ONLINE (ACCO)**

Ms. PETERS. Chairman Cleaver, Ranking Member Hill, and distinguished members of the subcommittee, thank you for giving me an opportunity to testify today. I also want to thank my daughter, Isabella, who came with me.

I am the Executive Director of the Center on Illicit Networks and Transnational Organized Crime, and I also co-founded the Alliance to Counter Crime Online. I have a long history of tracking organized crime and terrorism. I was a war reporter in Afghanistan and Pakistan, and I authored a book about the Taliban and the drug trade, which got me recruited by the U.S. military to support our intelligence community. I mapped transnational illicit networks for Special Operations Command, the DEA, and CENTCOM, and I still provide training to the intelligence community.

In 2014 and 2015, I received grants from the State Department and U.S. Fish and Wildlife to map wildlife supply chains from Africa to Asia, running investigations in South Africa, Kenya, Tanzania, Gabon, and Cameroon. These projects illuminated two important trends: one, at the transnational level, wildlife supply chains converged directly with other serious organized crime, from drugs to human trafficking; and two, an enormous amount of organized crime activity has moved online. I am going to discuss that later.

Criminal supply chains look the same no matter what commodity they move. I have submitted this graphic of what I like to call the “martini glass model.” It breaks down the criminal supply chain into three sectors: the production sector, where raw materials are cultivated or produced; the distribution sector, where goods are shipped transnationally; and the retail sector, where goods are sold to consumers.

Both ends of the criminal supply chain, the production and retail sectors, are characterized by having many actors who earn lower profit margins. These might be the farmers growing drug crops in Colombia or Afghanistan, or the guys selling dime bags on street corners. They are the highly visible aspects of the criminal activity and, therefore, they are the most frequent targets of law enforcement. But they are inconsequential to the operation of the supply chain and they are easily replaced if arrested.

Controlling the supply chains are those in the middle of it, in the stem of the martini glass, the distributors or traffickers. They tend to finance the entire supply chain. They have much higher profit margins and they are much harder to replace when interdicted.

In 2017, I published an article called, “The Curse of the Shiny Object,” which was submitted as part of my testimony today. The shiny object curse happens when the visible or attention-grabbing aspect of a problem or a crime distracts from identifying and countering its core drivers. The shiny object curse impacts crime policy. Think of the billions of dollars the U.S. Government spent spraying drug crops in Colombia and Mexico, or stop-and-frisk policies here at home.

Congress has also poured millions of dollars into anti-poaching projects across Africa, aiming to stem a conservation crisis that threatens rhinos and elephants and other iconic species with extinction. But poachers, like drug farmers, are inconsequential to the overall supply chain.

It is more efficient, and you are going to have more impact to target the traffickers—if you break the stem of the martini glass, you disrupt the supply chain for longer and you disconnect the actors at either end. The martini stem is where convergence occurs, since traffickers move multiple types of illicit goods. Their skill set is to move shipments through the global transport system, and money launderers clean those illicit profits and they don't care if the money comes from human trafficking, drugs, nuclear material; it is just money.

In 2016, when I was supporting DEA's Special Operations Division, I had the opportunity to screen undercover recordings of a major African trafficking network. The kingpin was bragging to the undercovers about moving drugs, ivory, and people, and he would say, "We have a route through Mombasa. We also have a route in and out of Dar es Salaam. We have a route into Maputo." He wasn't talking about roads or runways. He was talking about corrupt pathways.

Distinguished members of the subcommittee, U.S. law enforcement is organized around what is in the box being smuggled, but what we should be focusing on is disrupting the corrupt systems and pathways that allow smuggling to occur.

Lastly, I would like to address the issue of online crime. Just like commercial commerce and communications, a large portion of illicit activity has shifted online, but the laws governing the tech industry are out of date. Section 230 of the Communications Decency Act (CDA) still grants expansive immunity to tech firms for user-generated content, even when it is criminal activity and even when the tech firms know it is.

Take the fentanyl crisis, which is now killing more than 60,000 Americans every year. It is well-known that Chinese traffickers are marketing fentanyl-laced opioids through fake pharmacies that are advertised on platforms, search engines, and social media. Google and Facebook both host thousands of these illegal pharmacies, and somehow that is still not against the law.

Distinguished subcommittee members, I want to request your support as a committee to support reform to CDA 230, to make tech firms liable for hosting serious crime content, just like the financial services industry is liable for hosting criminal content. I have submitted amendments to both proposed bills, the CONFRONT Act, and the Stopping Trafficking Act, to specify the need for government research into how criminal networks are exploiting cyberspace.

Thank you for focusing on this important issue.

[The prepared statement of Ms. Peters can be found on page 63 of the appendix.]

Chairman CLEAVER. Thank you. Ms. Swift, you are recognized now for 5 minutes.

STATEMENT OF ANGEL NGUYEN SWIFT, FOUNDER AND DIRECTOR, STAT (STAND TOGETHER AGAINST TRAFFICKING) AND ADVISOR, ENIGMA TECHNOLOGIES

Ms. NGUYEN SWIFT. Thank you. Chairman Cleaver, Ranking Member Hill, and members of the subcommittee, I am honored to appear before you today to discuss an issue that is so incredibly important to the fabric of who we are as a society, and that is ripe for meaningful solutions and progress.

I have been very fortunate to be a part of a passionate and dedicated community of professionals who work tirelessly protecting the financial system from illicit and nefarious activity. The community I am referring to is the anti-money laundering and counter financing of terrorism community, more modernly known as the anti-financial-crime community. This includes financial institutions, law enforcement, government agencies, nonprofit organizations, and even now technology companies.

For the past 18 years, I have seen criminal networks, time and time again, exploit and abuse our financial systems. First, as I joined the Manhattan District Attorney's Office as a prosecutor on September 4, 2001; then, as I sat in the World Financial Center, right across from ground zero, leading efforts to build a financial intelligence unit at American Express; and most recently, in my position at Enigma Technologies, where I intimately learn how data and technology can play a crucial role in our Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT) ecosystem.

Due to these experiences, I am more convinced than ever that the only way to successfully dismantle trafficking organizations which so brazenly exploit multiple aspects of humanity and environment and safety is through coordinated, collaborative communities that build and share financial intelligence. It is with this conviction that the Stand Together Against Trafficking (STAT) initiative was created 3 years ago.

There are three main points I hope to convey in both my oral and written testimony. One, financial intelligence and evidence is crucial to secure successful prosecution of all trafficking networks, and we need to help law enforcement better understand the financial services system.

Two, financial institutions are well-positioned to assist law enforcement in identifying strong investigative leads, given that, as you have heard from the entire panel, even though trafficking networks are different, they exhibit overlapping financial indicators, and, in fact, there are many proactive, ongoing efforts led by financial institutions to identify these indicators.

Three, in order to truly step up progress, a more unified, multi-dimensional collaborative ecosystem to share knowledge must be established, ideally with support and coordination through government agencies.

Financial intelligence allows law enforcement to secure irrefutable evidence that defines business models of criminal enterprises; affirms traffickers' motivations; alleviates burdens for victims and eyewitnesses; assists in identifying third-party facilitators like gatekeepers, attorneys, accountants, and real estate professionals, all of whom we should be holding more accountable; and

allows law enforcement to go after primary motivating factors for the business of trafficking. It allows us to go after the profits. There needs to be more focus on the financial investigations aspect of all trafficking investigations.

Financial institutions are here to help. First, with the AML regulations from the Know Your Customer program to CDD to the requirement to monitor for and report suspicious activity, financial institutions have a prime vantage point. However, they are often operating with little actionable information. They can see the data but they need to know what the data is telling them. If given more context and/or reliable information, financial institutions can integrate trafficking-specific factors or lists into already existing risk assessments and/or screening processes. They can develop specific topology-driven criteria into their transaction monitoring systems and programs. They can provide more targeted information to law enforcement through the reporting of suspicious activity reports (SARs), and potentially even restrict or cut off access to the financial services to these trafficking organizations.

So, how can we get financial institutions more information? Simple: collaboration. There are many proactive efforts underway today. However, these proactive efforts are often met by people where time and resources are limited, often leading to a lot of missed opportunities to explore and analyze how they build upon all of these collaborations together.

It is with all these concepts in mind that STAT, Stand Together Against Trafficking, was created. At the core of this work is a platform that, with trusted partners from law enforcement, nonprofits like Polaris, and financial institutions like Truist, Ally, Western Union, and U.S. Bank, we have come together to identify a methodology and a structure to share all of this great knowledge that is available to the industry today. While focusing first on human trafficking, we know that the financial indicators across the networks share the commonalities and therefore can be leveraged across all areas of trafficking.

I have also submitted comments along the lines of the two bills that are before the subcommittee today, and I urge the subcommittee to consider involving every community that is involved in the anti-trafficking space. I also urge the committee to consider the framework around Presidential Decision Directive 63, later updated by Homeland Security under Presidential Decision Directive 7, which led to the creation of the Financial Services Information Sharing and Analysis Center, FS-ISAC, to focus on sharing targeted data intelligence to reduce cyber risk in the global systems. I think that this can be leveraged for addressing trafficking today. To disrupt and dismantle a network, we must get ours together. Thank you.

[The prepared statement of Ms. Nguyen Swift can be found on page 97 of the appendix.]

Chairman CLEAVER. Thank you very much. I thank all of you for your testimony. I now recognize myself for 5 minutes for questions.

One of the concerns I have, that hopefully the panel can help clear up, is the issue of whether or not trafficking creates a national security threat. Is it a national security issue, Dr. Kassenova?

Ms. KASSENOVA. It is both a national and international security issue, without a doubt, because in my written statement, I had more time to go into this, but basically, we have the commercial market in which we obviously still use components and technology and material, and this material is available, and the raw export controls systems in place and sanctions regimes, but those who illicitly procure WMD-related items are still able to do it. And so, the financial sector is among the most important actors in terms of trying to limit this access. And if they continue to have access to these components and continue to improve their WMD programs and missile programs, unfortunately, we might have an event that will absolutely show and prove to us that it is a major national and international security threat.

Chairman CLEAVER. Well, that is unsettling. That doesn't make me feel very good. But one of the issues that we discover, at least in my experience with this committee, is that when there is a crisis, we discover that there has not been much communication. In 2008, we found out that the Federal Reserve was not communicating with Treasury and the FDIC. We hopefully resolved that.

So is there the kind of communication and coordination that you think contributes, or the lack thereof, to the growing problem?

Ms. KASSENOVA. I think compared to some other jurisdictions, the U.S. is actually above average in terms of interagency communication, but it is still not where it could be or should be. There is definitely space for improvement. And right now what I see as external and not within the government is that issues are siloed and information and data is siloed. Those, for example, who work on export controls see one part of the picture. Financial institutions see another part of the picture.

We started having initiatives that are trying to bring these different types of data together, but there is so much more that can be done in terms of just stepping back and looking at all of these issues in a more comprehensive, holistic way. So, there's definitely space for improvement. And it is an easy thing to do. To overcome bureaucracy maybe is not that easy, but in practical terms, it is something that can be done immediately.

Chairman CLEAVER. Okay. Mr. Adkins and Ms. Peters, if you were sitting up here with us and you became completely convinced that we needed to do something, and we needed to do something now, what would it be? What would you want to do if you were sitting in one of these seats?

Mr. ADKINS. The first thing I would say, Mr. Chairman, is to fund an initiative that is very similar to what you have done with the bipartisan counter-trafficking initiative, and I think to speak a little bit to the last question, one of the things that is, I think, misunderstood about many of the transnational and terrorist organizations is the level of connectedness, the level of sophistication, the level of agility, and the level of communications that they have.

As Ms. Peters gave a beautiful anecdote about listening to traffickers' communication and they are talking about all of the different routes that they have, and the fact is that they outstrip us in their ability to connect to one another, to share data and information, to be able to track movements more thoroughly. And so, in

that instance where we fail, they thrive in the gaps of the disconnections and the lack of information that we have.

The other thing that I will say, which I think is somewhat shared between the testimony of Ms. Peters and myself, is the idea that we can go after trafficking networks all that we want, but if we do not address and recognize and acknowledge the things that sustain them, the things that give them oxygen, the conditions that give them the space to operate, then we are essentially trying to chuck water out of a boat with a hole in it, and that is these ideas of poverty, instability, official corruption, and conflict, which contribute greatly to the conditions that make people fall victim to trafficking, specifically in persons.

Chairman CLEAVER. Thank you. I wish we had much more time than we have, but my time is up.

I now recognize the gentleman from Arkansas, the ranking member of the subcommittee, Mr. Hill.

Mr. HILL. Thank you, Mr. Chairman. And I want to thank the panel for their excellent testimony. Thanks for being with us today. I just got back from a trip to the desert in Arizona 2 weeks ago, and that was a keen description, Mr. Adkins, of those gaps, even in our own country, where human trafficking across the desert is significant. It is primarily a drug and trafficking location across the Sonoran Desert between Nogales and Lukeville, Arizona, and there you have gaps, because we are just now putting up the kind of integrated towers that will give us both the camera and radio transmission technology to back up our Border Patrol there and other local law enforcement. And they are really at a disadvantage to the cartels who run a much more sophisticated communication operation there on the border.

I wanted to ask Ms. Peters about this issue of hitting in between the two martini glasses. There are a lot of people in that mix, obviously the cartels, the transnational drug groups, the people who have merged terrorism with traditional smuggling, but the gatekeepers, let's talk a little bit about that. We have SARs and the financial system and we really monitor the banks. We make the banks our co-partners in this effort.

But what are other ways in that gatekeeper arena to interdict some of those trading routes—lawyers, notaries, accountants, people who offer services in those countries? How do we attack all of that, Ms. Peters?

Ms. PETERS. If I can put it most simply, I think that the strategy should be network-focused as opposed to commodity-focused. I have seen operation after operation just focused on, say, narcotics, or just focused on wildlife, or just focused on human trafficking, in part because our agencies, our law enforcement agencies are restricted by the authorities that they have. And there has been some effort to get around that by grouping agencies together, mainly out at the Special Operations Division of DEA. But even there I have seen case after case where a lot of data has been left on the table about an organization's criminal activities, just because they don't have the team working. It doesn't have the authorities.

You never see criminals get wrapping around the axle about what it is that they will traffic in. If they are going to make money off of it, they will do it. I think Hezbollah, for example, which the

U.S. Government has repeatedly targeted for drug trafficking, makes more money off of the illegal timber trade, and we don't touch them for that. They make a lot of money off of trading diamonds. That is terrorist financing, and we ought to be going after them for those things.

And so, I think if we can think about all of the different illicit activities a network is involved in, and especially to go after the financing of those activities, to be looking for the money, taking the money away from them, those are the ways that I would strengthen some of the operations—

Mr. HILL. I appreciate that. That is why I emphasized—and we have talked about it for years—a fusion center operation between our financial sector and our law enforcement sector, reading those financial services people into it on a need-to-know basis, to look for those patterns of these practices. This is also why I raised the issue of cigarettes, which, because of trade-based money laundering, just pass through our ports of entry all day long, every day, undetected, because they are not an illegal narcotic, and yet the money is used to finance transnational crime.

You also raised about the dark web, and of course, I want to thank the Trump Administration and leadership in Congress both for shutting down Backpage and taking a number of coordinated efforts to stop human trafficking in the worst ways. But Ms. Realuyo, could you talk about what else we should do to shut down the internet aspect of illicit trading?

Ms. REALUYO. What we are seeing is that these groups are very innovative and they are actually much more adaptive than our governments. And what is frightening is that we see also, because of the clientele who tend to be younger and more comfortable in the internet, we are seeing this explosion and transformation and evolution of the drug trade from plant-based, which used to be heroin, marijuana, and cocaine, over to these synthetics, which are much more potent.

In your opening statement you talked about the opioid epidemic, and what is even more frightening is we are seeing an increase in the U.S., because methamphetamine is being now marketed as the safer alternative to fentanyl, and they are combined. And kind of supporting and by echoing the other witnesses' testimony about how we should be looking at the gatekeepers are the same. They are out to make money, and it doesn't matter what they are trafficking in.

The other thing we see in the case of groups like the Mexican cartels is they are physically controlling the supply chain and the routes, whether that be migrants or actual drugs that are passing through, or avocados to take advantage of the Super Bowl.

Mr. HILL. Thank you very much.

Ms. REALUYO. These are the types of things we are seeing.

Mr. HILL. Thank you.

Chairman CLEAVER. Thank you. I now recognize the gentleman from Colorado, Mr. Perlmutter, for 5 minutes.

Mr. PERLMUTTER. Good morning, everybody. Thank you for your testimony today. Some of you have testified here before, and I just want to thank you for your continued vigilance in this area.

I am going to switch gears. I want to start kind of in the crypto areas with a general question to begin with, and this is to anybody who wants to take it. Cash has long been king for economics generally, but certainly within the trafficking world. And as we move more to cryptocurrencies and the like, have you seen that change?

Ms. Peters, let's start with you, and then Dr. Kassenova.

Ms. PETERS. Thank you for that important question, and I also wanted to address something that Ranking Member Hill said in his commentary about the dark web. Criminals aren't in the dark. They are operating in the dark web but they are using surface web platforms as much as any dark web. That is where the customers are. I don't know how to get on the dark web; I don't know about any of you. If you want to sell drugs to people or you want to sell sex or ivory, it is on Facebook. It is on Instagram. These platforms provide the same anonymities as the dark web and a far greater reach of customers.

With regards to your question about crypto, we haven't seen evidence that major criminal organizations have moved institutionally into blockchain currency. In fact, they seem to be as concerned about the risk and the instability of cryptocurrencies as regular consumers are.

That being said, there is an increase, and particularly in Europe it is being tracked, but what I see looking at money laundering all the time, is that criminals still want to get their money into the U.S. dollar or the euro. They want to be in major currencies.

Mr. PERLMUTTER. Okay. Dr. Kassenova, did you have a comment?

Ms. KASSENOVA. Yes. The cyber domain and crypto domain is what we see as an emergent threat and a threat that we do not understand fully yet. I will just give you an example of North Korea. They have been extremely successful with cyber attacks on financial institutions. For transferring money from banks, for example, they also attack cryptocurrency exchanges. And so on crypto, for example, they not only mine cryptocurrency, they also steal it, both from exchanges but also from other users, and then they engage in those layers of multiple online transactions so that the tail of it is completely lost, and it is extremely difficult to track what they use this money for.

And then eventually, we know that for North Korea, their WMD program is one of their most important national projects. So for sure, some of that money is being used for proliferation activity. And just to give you a data point, it is believed that North Korea illegally obtained up to \$2 billion U.S. dollars through cyber activities.

Mr. PERLMUTTER. Okay. So let me follow up with that, and again, to the entire panel, North Korea, Iran, Russia maybe, can you all discuss the role on corruption in foreign governments and how it may or may not affect our efforts to stem this international trafficking?

Mr. Adkins, why don't you take a shot at that?

Mr. ADKINS. Sure. I think that it is at the heart of this trafficking piece. And so what I have submitted in my written testimony is the notion that trafficking is, in fact, a symptom and a driver of official corruption. And one of the things that folks who

traffic in persons are doing is, yes, they are criminals, but they are also doing bribes and kickbacks to political officials, to border control and law enforcement agents, and essentially utilizing the networks that are supposed to defend against them as part of their efforts to make the kinds of illicit trade that we do see. And in many governments, of course, there is this idea of actual complicitness from the very senior levels of the government on down, in having certain countries be transit points. And I think that is one of the reasons that we see specific countries at the top of the list for efforts like this.

Mr. PERLMUTTER. So in your vernacular up there, these countries would be, in effect, big facilitators.

Mr. ADKINS. Absolutely.

Mr. PERLMUTTER. Okay. I yield back to the Chair. Thank you.

Chairman CLEAVER. Thank you. The ranking member of the Full Committee, the gentleman from North Carolina, Mr. McHenry, is now recognized.

Mr. MCHENRY. Thank you, Mr. Chairman. Ms. Peters, I want to start with you. Give me the contours of this. In terms of trafficking, for us as American policymakers, how many people are we talking about, who are directly involved, who have the logistical capacity for the larger-scale movement of people and products for illicit trade?

Ms. PETERS. Well, I am not sure I could give you a number globally for that but it is a much smaller number than, say, the farmers growing drugs or the people selling drugs on the streets. I can give you examples of a number of networks that I have worked on. It has been a handful of people at the top. I am talking about a dozen or less, including their financial operation.

Now what you will see is that a trafficking network will often outsource aspects of its work. They might outsource the money laundering to a fixer or organization; Mossack Fonseca is a good example that was catering to a lot of illicit organizations. But I have worked on a number of big projects where there was a dozen or less, or just a few dozen people at the top of the bureaucracy. But these are identifiable bureaucracies. In every operation—

Mr. MCHENRY. Okay. So what are those vulnerabilities? You have identifiable bureaucracies. What are some of those key vulnerabilities that I need to understand?

Ms. PETERS. The key vulnerabilities are the brokers who have the capacity to move containers through the transnational system. There are not a lot of people who have that capacity.

Mr. MCHENRY. So, policing the brokers. Okay.

Ms. PETERS. Identifying who are the folks that have the capacity to move illicit containers through transnationally. There are not a lot of networks that have the capacity to do that.

Mr. MCHENRY. Okay.

Ms. PETERS. And then identifying the financial—the teams within those big networks that are running the financial aspects of it. If you can interdict them, it is often more impactful to the overall operation of the network than simply arresting or killing the kingpin.

Mr. MCHENRY. Okay. So tell me the most uninteresting product that has been used to illicitly finance terrorism and other activities that you have talked about.

Ms. PETERS. The most uninteresting?

Mr. MCHENRY. Yes, uninteresting, because we hear ivory all the time. But when you say timber, I think, well, this is not the normal discussion we have as policymakers. We understand, Ms. Realuyo, your explanation of the illicit drug trade. We hear that a lot. We don't hear timber, though. So, why timber?

Ms. PETERS. What you see is a phenomenon in places when there has been a crackdown, say, on narcotics or ivory, that criminals will diversify into another profit-making sector where they perceive there to be lower risk. Africa has these incredible forests of 1,500-year-old hardwoods that are in high demand in China, where there are timber shortages and a lot of demand for wooden furniture. So, the trunks of these trees will sell for \$150,000 each. That is a huge amount of money, and nobody is really looking at it. So, we have seen a lot of groups move into that.

Mr. MCHENRY. Okay. This is helpful. It is helpful to have this in the conversation.

Ms. Realuyo, I mentioned that we hear a lot about the drug trade, but when we hear fentanyl, we commonly think of China. But we have an issue that you are an expert on in terms of what is happening right now in Mexico. Can you walk us through the contours of that? Because my district, like all of us here, has been severely impacted by the opioid epidemic. We have five deaths a day in North Carolina as a result of opioids. So if you could speak to that, it would be quite helpful.

Ms. REALUYO. Sure. China continues to be the source country of not just fentanyl but also other precursor chemicals that fuel the other types of drugs that are coming to our shores. What we are seeing, though, is the U.S. Postal Service has really stepped up its detection and monitoring operations. As Gretchen explained, these groups are adjusting. So what is happening is they are diverting into the ports in Mexico where the clashes among the cartels that are very violent lately are starting to take place, and in Mexico there has been proof that laboratories there are themselves now manufacturing fentanyl, as well as methamphetamine.

Why the Mexican cartels are so important is that they are actually now being used as the route, instead of through the Postal Service. Almost every day you hear about news in airports and Postal Service workers being much more aware of what we are doing.

So we are seeing it in terms of awareness, detection, but more importantly the nimbleness of these groups, and more importantly, fentanyl and laced fentanyl products are actually much more lucrative and much easier to make.

Mr. MCHENRY. So this means we have to have heightened awareness for Customs, right?

Ms. REALUYO. Right.

Mr. MCHENRY. At our borders, to understand that Customs agents, in their capacity, that their technological capacity is supremely important when it comes to human trafficking and trafficking of all kinds.

Ms. REALUYO. That is right, and we are trying to protect both on the U.S. and Mexican side, those who are the first responders and the law enforcement agents, because it is even overwhelming our dogs that are doing detection.

Mr. MCHENRY. Thank you.

Chairman CLEAVER. The gentleman from California, Mr. Vargas, is recognized for 5 minutes.

Mr. VARGAS. Thank you very much, Mr. Chairman, and Ranking Member Hill for this hearing, and, of course, I thank the witnesses. The number of people who are victims of human trafficking really is staggering, the suffering we are seeing in our own country, and I am from San Diego, so we certainly have it there in large quantities, unfortunately. And the suffering that happens around the world is, again, something that is monstrous.

And I do think it is, as stated earlier, a national and international security issue. Trafficking has the victims who are directly abused but also the funding for terrorism and other illicit crimes like drugs, that was spoken about.

And interestingly, and, Ms. Peters, you brought up the issue of the tech companies, how they are involved in a sense, not actively in that they want their technology to be used in this way but it is being used in this way. I am from California, and I was in the legislature there for some time, and to be truthful we always protected the tech companies to make sure that this new technology, this creed of industry that we had could flourish because it was in its infancy, and we saw the opportunities that it provided. And so, we haven't leaned on it very hard. We haven't burdened it very hard, as we have the banking systems and other systems, because they are more mature.

So I do want to dig down a little bit on that, because it is intriguing when you say that we need to do more, in a sense, and you juxtaposed it to the banking system. Could you go a little deeper in that, on your comment?

Ms. PETERS. Yes. When the Communications Decency Act Section 230 was passed a quarter century ago, there were only about 25 million Americans using the internet, and most of them connected through a telephone dial-up. Social media was not a thing. The iPhone was not a thing. Smartphones were not a thing. And the tech algorithms that connect people did not exist either.

Today, we live in a world, first of all, where the tech industry is no longer in its infancy. It no longer, I think, warrants the protections that it was—

Mr. VARGAS. They are, in fact, the wealthiest companies—

Ms. PETERS. The wealthiest companies in the world. There is also an enormous amount of venture capital in Silicon Valley supporting the emergence of new firms. They don't need the support that they used to get, in my opinion.

Second of all, their tech algorithms are connecting buyers and sellers of illicit goods faster than these companies' own beleaguered moderators can remove the material. So I think they would get a lot better at moderating illicit activity and removing illicit activity if they were facing serious liabilities for hosting it.

Our motto at the Alliance to Counter Crime Online is if it is illegal in real life, it should be illegal to host it online. I am not talk-

ing about getting rid of the liability shield for tortious commentary. I still think there should be Yelp reviews and people should be allowed to forward emails without risk of liability to the tech firms. But we need to have carve-outs for serious criminal activity.

And I am very pleased to see that Senators Graham and Blumenthal have put forward new legislation about human trafficking, but I want to ask them, why only human trafficking? We have upwards of 60,000 Americans dying a year from drug overdoses, most of which is being bought and marketed online. Why is that still allowed? Why are terrorist organizations still allowed to have Facebook pages? It is crazy. This should not be happening.

I have a fact sheet that I have turned in with my testimony that gives you an overview of the types of crime we are tracking online and it is breathtaking.

Mr. VARGAS. Thank you. You didn't mention cryptocurrency, though. You did earlier. I do have a bill that passed out of here last year, H.R. 502, the FIND Trafficking Act, that asks the—well, actually it didn't ask, but directed the Comptroller General to carry out a study to find out how cryptocurrency is being used. Could someone address that, because I agree with you, it is hard for us just to be frank. We don't like to put regulations, the Republicans don't, the Democrats, on industry. The Democrats don't like to do it on new creative industry. And I think that is why we have given tech a pass. And with all the things that are happening now, I don't think we should give them a pass. I think that we should drill down deeper.

But could someone—and I only have 30 seconds left—talk about cryptocurrency? Yes, Ms. Realuyo, go ahead?

Ms. REALUYO. We haven't seen a mass movement from traditional criminals to the crypto space because cash is still king to pay your assassins and your distributors. There is a move afoot among the terrorist groups, particularly returning foreign fighters of ISIS who have gone underground, to use other ways to communicate, but also to try to raise money and support themselves. It is no secret that Hamas actually has advertised that you can donate to their organization using a bitcoin, and they even give you the instructions on how to do it. What they don't really know is it is not fully anonymous, but we will keep that amongst ourselves in terms of being able to track.

Mr. VARGAS. Yes, let's keep that one amongst ourselves. My time has expired. Thank you, Mr. Chairman. I yield back.

Chairman CLEAVER. Thank you. The gentleman from Texas, Mr. Williams, is now recognized for 5 minutes.

Mr. WILLIAMS. Thank you, Mr. Chairman, and it is heart-breaking to hear the horrific stories coming from human trafficking survivors. As a father of two daughters and a beautiful granddaughter, I cannot begin to imagine any of them being subjected to this type of abuse. So before I begin with my questions, I want to sincerely thank the chairman for calling this hearing. And I want to thank all of the witnesses for being here today to share your expertise with all of us.

Monopoly Market, Empire Market, DarkMarket, and White House Market are just a few of the more than 40 online vendors

where you can buy thousands of different types of drugs over the internet. These websites are operating in plain sight, as we have said today, and you can find information about each with a simple Google search, as you said, and customers can leave reviews. Vendors say exactly how their drugs will be shipped, how the websites will walk you through the payment process, step by step. White House Market publishes that they have over 15,000 listings from 1,300 vendors on their platform alone.

Almost 200 Americans die every single day from drug overdoses, yet all of these websites are still online as we speak, and we have touched on that. So, Ms. Peters, let me ask you, what can be done to allow our government to be more aggressive in taking down these illegal online marketplaces that are hubs for trafficking drugs?

Ms. PETERS. We would like to see Congress remove the liability shield that the tech industry currently enjoys for hosting serious organized crime content. Having spoken to them, I believe that the authors of CDA 230 intended that liability shield only to pertain to speech, which I agree should be protected, as opposed to illicit activity. So we believe that there should be carveouts for that issue specified, as was done with Fost Assesto when it passed, with regards to human trafficking. We believe that tech firms should be legislated similar to the financial industry to hand over data they have about illicit activity on their platforms to law enforcement, and we would also like to see Congress appropriate more resources to the law enforcement community to deal with what will inevitably be a deluge of data.

And I will give you an example. Facebook only began tracking drug sales on its platform last year, which is kind of incredible, and in the first quarter of last year, they removed 4.4 million postings that were selling drugs. To put that in perspective, that is 400 times larger than this notorious dark website, the Silk Road, ever was: 4.4 million postings.

Mr. WILLIAMS. Thank you. Any sustainable long-term solutions to shut down these complicated trafficking networks will require a coalition of countries from across the globe, I think, since some other countries might not have the same resources or capabilities to go after human traffickers. So Mr. Adkins, what can the United States do to help those nations that we will need to bring in as partners to stop this horrible practice?

Mr. ADKINS. That is a great question. I think that when we talk about technical support, when we talk about the support that we have over the last decade or so that has been diminishing for democracy and governance, support from the United States to countries that have issues with weak governance, what is our engagement in international conventions and data sharing types of initiatives that can help support those types of countries to improve in those sectors? But I think the real issue is that they are not just falling behind because of lack of capacity, but mostly because of the lack of resources.

And this is kind of the main thrust of my appearance today, is that these are generally poor countries, many of whom are mired in unresolved conflict, many of whom cannot even provide the most basic services for their citizens. And so, when you get into the high-

er-order level of things around border protection, around legislation, and law enforcement, these nations would be weaker in those areas across-the-board, so human trafficking is only a small slice of the deficiencies that they would have in being able to protect their territories and their citizens.

Mr. WILLIAMS. Okay. Quickly, Dr. Kassenova, can you discuss how North Korea most regularly accesses the global financial system, and the role that Chinese financial institutions play in their ability to obtain critical WMD technologies?

Ms. KASSENOVA. China is among the jurisdictions that actually are of great concern to the nonproliferation community. Over the years, we have seen progress both on export controls and then nonproliferation policies and clamping down on this kind of activity, but it is still not enough.

Specifically on North Korea, most of North Korea's sanction evasion and illegal access to international markets and financial systems does involve China, and I shouldn't say China, but middlemen, agents, brokers, and front companies that are based in China.

Mr. WILLIAMS. Thank you.

Ms. KASSENOVA. I want to recognize that over the years, there have been improvements, but it is not where we want to see the government.

Mr. WILLIAMS. Okay. Thank you. I yield back.

Chairman CLEAVER. Thank you. The gentlewoman from Massachusetts, Ms. Pressley, is now recognized for 5 minutes.

Ms. PRESSLEY. Thank you, Chairman Cleaver, for waving me on, and Ranking Member Hill, for holding this hearing, and thank you to our witnesses for sharing your expertise with us today.

The deprivation of women's bodily autonomy for political ends is not a phenomenon limited to one time or place—from Boko Haram and Al-Shabaab kidnappings to small-scale Boston traffickers, exploiters are making a profit by trading trauma and condemning families to a lifetime of fear for their children's safety.

Mr. Adkins, how is trafficking used to further the goals of these insurgencies, and why is human trafficking, including sexual exploitation specifically, so effective in terrorizing local communities?

Mr. ADKINS. Thank you for your question, Representative Pressley. The first thing that I would say is that there is a general overarching sense in the world of essentially patriarchy and the diminishment of the value, worth, and protection of women in our society, and certainly in many nations abroad. That would be kind of the overarching piece of this.

The second piece is that even though terrorist organizations don't have very strong links in terms of the actual transport and kind of cross-border movement of trafficked persons, they certainly are consumers of trafficked women and children as porters, as sex slaves, as concubines, as people to be forced into marriage.

And so essentially, what trafficked people create for many of these terrorist organizations is a base of consumption, to feed themselves, to sustain their movements, to keep the morale of their soldiers high, to actually entice young men to join terrorist movements with this idea that you would have power at the point of a gun and that you would have access to women, all the way up to your liking.

The other piece of this is that, again, even though the ties are not strong in terms of linking them directly to doing trafficking, they actually create the conditions that induce vulnerability for more people.

Ms. PRESSLEY. Okay.

Mr. ADKINS. And because of what Boko Haram has been doing in Nigeria, trafficking writ large in Nigeria has become a more serious problem, and it is a more serious problem for more vulnerable people. So, any type of organizations that create displacement, that create refugee flows, that create internally displaced persons, are, by dint of that action, creating more people who will be disconnected from state services and protection, disconnected from their families, and then by dint of that, more vulnerable to being brought into the dark underworld of transnational criminal organizations and terrorist groups.

Ms. PRESSLEY. Thank you. Thank you for that comprehensive response, Mr. Adkins. Just in the interest of time, I will try to conflate my two final questions and hear from whomever would like to contribute.

I want to bring a survivor into this discussion. I represent the Massachusetts Seventh District and I work closely with a survivor-level organization called My Life My Choice, and the Eva Center as well, which works with survivors of trafficking to rebuild and recover. Now, survivors face obstacles in reclaiming their financial agency, and this is something we don't often talk about. My Life My Choice shared the story of one such survivor, Kendra. She grew up in state care due to parental substance use and sexual abuse in the home. By age 13, she had met her first exploiter. Kendra continued to face sexual exploitation through her teens and her early 20's. By the time she escaped for good, her Social Security number had been stolen by her exploiters, and credit cards and an auto loan fraudulently taken out in her name. Although case managers were able to help Kendra appeal this credit fraud in court, many survivors lack access to this support.

So I just want to make sure that we are thinking both about prevention and recovery. Ms. Nguyen Swift, how can banks better help survivors appeal and correct fraud and reclaim ownership of their finances?

Ms. NGUYEN SWIFT. Thank you. This is an extremely important issue. I think there are two connected items here that you have hit upon: one, how do we restore credit for the survivors; and two, how do we get them access once they have extracted themselves from their experience?

There are a lot of efforts that are being done today with banks through the Liechtenstein Initiative, which is trying to create internal policies and procedures in order to evaluate, with social work organizations, new accounts that are being created for survivors so that they can get their foot in the door. Once they get their foot in the door, then their accounts can go through the normal system and they can build their credit that way.

But I think the root cause really is, how do we restore credit for the survivors, because if we are able to help them restore their credit, and we are able to help that conversation start, then they can apply for any type of financial services. So, I think we need to

bring those agencies who are responsible for evaluating credit to the table, to have that conversation to identify solutions, the credit bureaus and agencies and things like that. Banks, unfortunately, cannot, because once bad activities happen—

Mr. PERLMUTTER. [presiding]. The gentlelady's time has expired. Thank you.

Ms. NGUYEN SWIFT. Thank you.

Mr. PERLMUTTER. The gentleman from Ohio, Mr. Gonzalez, is recognized for 5 minutes.

Mr. GONZALEZ OF OHIO. Thank you to our witnesses for being here, and thank you, Chairman Cleaver and Ranking Member Hill, for holding this hearing on such an important topic. I am thrilled to know that this is the first in a series of hearings. It is good to know that we are going to beef up our understanding of what is a critical issue in Ohio, where I am from, but also across the country. We have been, in many respects, ground zero for the opioid crisis, fentanyl trafficking, but also human trafficking, which is something that our office has been working on for the past year or so.

Ms. Peters, I want to start with you, because I think this is a really interesting point that you touched on with respect to Section 230. I have an open question, which I am just curious for your thoughts on. I think there are kind of two minds that I could take with that. One would be liability moves to the platforms themselves, like Facebook, YouTube, et cetera. The other could be maybe liability in some respects, at least for these dark websites, it could move to the hosting services, right?

Do you have a sense of—I guess, why would you go in the direction you have gone as opposed to the hosting services? And I am curious, generally curious, because I think this is a tough topic.

Ms. PETERS. We believe that the platforms hosting the data, as opposed to the website host, should hold the liability because they are mainly talking about platforms that are free to use. So, these platforms make money by harvesting the data of their users. The notion that they don't know what is going on is absurd to me.

Mr. GONZALEZ OF OHIO. Yes. I agree with you.

Ms. PETERS. And I think that, in particular, those platforms should have a lower liability shield.

To me, putting that liability on the web hosting devices would be kind of akin to putting liability onto a telephone service that is just carrying messages. However, if you have illicit organizations like, say, the Sinaloa cartel or Hezbollah, that actually have a website, I don't think they should be allowed to—

Mr. GONZALEZ OF OHIO. Yes, and there are certain hosting services that specifically focus on the Sinaloas of the world, right?

Ms. PETERS. And they should be targeted for that, I agree, but ordinarily, I would say if a web hosting service is hosting a platform, and that platform is hosting illicit activity, to me, the platform is at fault.

Mr. GONZALEZ OF OHIO. Yes. I think I generally agree. I am still thinking through it, because I think there is—

Ms. PETERS. I think there is also a very interesting debate about the question of strict liability regimes or duty of care, which I would be happy to discuss ad nauseum, but it is a very important issue to discuss.

Mr. GONZALEZ OF OHIO. Okay. And then, Ms. Realuyo, with extremism a lot of times we see that the conversation starts on a Facebook, or a YouTube, sort of a traditional platform, and then at a certain point it bumps off and goes into the fringe platform world. Is your sense that that is what is happening in the trafficking world as well, where it is starting on a Facebook, and then it is moving to a dark website, or is it actually transacting on Facebook directly?

Ms. REALUYO. When you take a look at all of these groups, whether they be terrorist or criminal in nature, you still have to have a human interface. We are now studying a lot of the ISIS foreign fighters who have come back, and in partnership with several of our international counterparts, we are trying to better understand, for example, why did that Tunisian young man—how did he get involved, and in one point, more interestingly, in Western countries like Europe and the United States? They get drawn in because of the accessibility of that propaganda online, but then, more importantly, there usually is a physical facilitator who helps them to make that voyage to the Islamic state, and now we are much more concerned about the ones who are coming back.

What we are seeing, too, in terms of trafficking, in terms of whether it is drugs or people, there is still a physical, because you have to actually—there are some goods that have to be transferred.

Mr. GONZALEZ OF OHIO. Right.

Ms. REALUYO. And we need to equally watch, monitor, and understand, but also go after both that that push online, but more importantly, those that are actually physically engaged in that trafficking.

Mr. GONZALEZ OF OHIO. Okay. And then if you can do this in 30 seconds, you highlighted how coordination is essential. I completely agree. I think most people said that on the panel. Legislatively, what is one thing we can do to make sure the coordination does happen more frequently than it currently does?

Ms. REALUYO. Having been in and out of government over the last 20 years, once you all require a congressional report, it actually focuses the different agencies to have a sense of concentrated mission. And what we are seeing now, particularly in the military, is we look at threat finance across all of the different regions, and then, more importantly, across all of what we call the modalities, whether it is weapons of mass destruction, human trafficking, gold. We didn't really talk about Venezuela, which is the true trafficker of gold, oil, and drugs, in terms of facilitation. But we are getting better at it.

Mr. GONZALEZ OF OHIO. Thank you. My time is up. I will follow up. I yield back. Thank you.

Mr. PERLMUTTER. The gentleman yields back. The gentleman from Utah, Mr. McAdams, is recognized for 5 minutes.

Mr. MCADAMS. Thank you, and thank you all for being here today to share your expertise on this very important topic, and one that I think we have to do a better job about combating.

Trafficking takes shape in many forms and has many victims, whether it is the over 20 million people trafficked into forced labor or sexual exploitation, or the drugs that are trafficked into our country that devastates families and communities. And while they

have differences, for sure, in what is trafficked, we know that they also share commonalities. So I am glad that this hearing is exploring the topic in more depth and hopefully will provide lawmakers some direction on how to better counter these various forms of illicit activity.

Ms. Nguyen Swift, you noted that financial institutions are well-situated to assist law enforcement in identifying strong investigative leads, given that different trafficking networks often exhibit overlapping financial indicators. Can you elaborate on how some of these networks operate similarly, from a financial perspective, and what type of indicators can we see?

Ms. NGUYEN SWIFT. Sure. At the end of the day, all types of trafficking is a business, and financial services companies provide a limited amount of products. And so, checking accounts, business accounts, credit cards, prepaid cards, and cryptocurrency have been echoed multiple times today; there are only certain ways that you can actually get money into that system and out of that system. And so, if you are looking at criminal business enterprises, they have to rely on those various products.

Some of the typologies that we have seen across multiple levels of trafficking are business accounts that are being opened under multiple shell company names. However, they share similar account managers, they share similar owners, and they share certainly similar patterns of activity in dealing with the same third parties. So if we are able to understand more context around what those relationships look like, and that comes from intelligence, then we are able to pinpoint and understand more what networks they are part of.

Mr. MCADAMS. And maybe a related question, do we have a good understanding about how some of those networks may operate differently as they flow through the regulated financial system, different forms of trafficking? That is, do we understand how human trafficking networks would appear as it proceeds through the financial system, compared to how a drug trafficking network would appear?

Ms. NGUYEN SWIFT. There are some indicators that you can kind of tell the difference. For example, with credit cards, the types of purchases you might see are going to be different, and in human trafficking, a brothel situation, you are going to see a lot of feminine products being purchased, and in drug trafficking, probably not, unless there is a home that is also being leveraged where a lot of women are working.

So from a financial institution perspective, it is hard to tell some of those nuances. The only way to do that is with getting contextual information from experts in the industries that are working in those specific areas. So, there are some telltale signs, but we need to know what they are.

Mr. MCADAMS. Thank you. In your written testimony, several of you talked about both potential advantages and disadvantages to technology in the trafficking of goods. Professor Realuyo, you noted that opioid buyers can visit dark websites anonymously using special browsers and make purchases with virtual currencies like Bitcoin, making transactions difficult to trace. And Dr. Kassenova, you testified that adopting technical solutions to monitoring trade

finance transactions, including by adopting blockchain-based trade finance platforms can play a role in uncovering suspicious transactions.

How should we, as policymakers, be thinking about the role that emerging technologies can play in trafficking and illicit financing, whether that be AI or digital currencies, et cetera, and are there ways that we can harness these technologies to fight trafficking?

Ms. REALUYO. It's great to see you again.

Mr. MCADAMS. You, too.

Ms. REALUYO. I really see, more importantly, because I kind of traverse the private and then the public sector, what we really need is just greater research, and then at one point, on the government side, we need much more investment in law enforcement and intelligence training to understand what these technologies present as an upside, but more importantly, the dark side and what that back door is.

Because as they modify and, more importantly, adapt, incorporating this new technology to improve the efficiency of their businesses, they understand what our counter measures are, and we need to step up the pace of what our measures are in order to detect, particularly, but more importantly, trying to figure out how to better work also the private sector so that they become the eyes and ears of what is happening in their sector.

Mr. MCADAMS. Thank you. Dr. Kassenova?

Ms. KASSENOVA. Thank you for this chance to kind of give a bit of a positive side of new technology. For proliferation financing, when I talk to the representatives of the financial institutions, they feel a little bit overwhelmed that if we start checking everybody so deeply, then it will slow down their transactions. And so for them, the main challenge is how to operationalize the risk and automate it, and this is where technology can come in very handy.

Just to give two specific examples, it is the pilot blockchain-based trade finance platform, Voltron, that I was referring to, and the people behind it are more interested in efficiency. But because it provides better transparency, you can have a collateral, positive effect in finding out some suspicious actors.

Artificial intelligence, for example. There are startups that are working on that, and this is then tapped potential of technology, and I think, from where we sit, there are definitely—

Mr. PERLMUTTER. I am going to have to cut you off. The gentleman's time has expired. He can submit more questions to you in writing and finish that.

The gentleman from Texas, Mr. Taylor, is recognized for 5 minutes.

Mr. TAYLOR. Thank you, Mr. Chairman. I appreciate this hearing. First, I appreciate the bipartisan nature of it. I appreciate the lack of theatrics in this particular hearing. I am the newest member of the committee, so this is a first for me.

Also, I think the scale of what we are talking about is really incredible. If you think about how MasterCard processes \$1.7 trillion of transactions annually, and that is about what we are talking about here. So just to kind of give us a scale, I think this is very impressive.

I just want to understand, and Ms. Peters, I have been hearing about your exploits for years from my wife, Ann, who was your roommate at college. So I just wanted to ask, crypto versus cash wires versus hard cash, kind of thinking about those three, electronic transactions versus cryptocurrency versus hard cash, what are you seeing kind of as the makeup in illicit trade broadly, in your experience?

Ms. PETERS. Well, before I answer that I just wanted to very quickly make the comment that I don't think blockchain is necessarily something we should fear. Blockchain technology holds the promise of actually tracking financial assets better. I think the risk is that non-governmental actors from Facebook to the founders of various cryptocurrencies are trying to get involved in managing world currencies. This should be the role of governments, not companies, and certainly not illicit actors. So I think there is a need for the U.S. Government to look into perhaps releasing its own blockchain currency, or something like that. But we don't necessarily need to think of blockchain as a bad thing.

I also want to make the point that we used to talk about—those of us who are interested in the financing of crime, our battle cry to our teams used to be to follow the money, and it always takes you to the leaders. These days, when I work with a team of investigators, I instruct them to follow the value. We often see criminals moving illicit value through commodity trades, whether it is a group like Hezbollah or the Taliban, who got very deeply involved in the used car trade. You buy a used car; how much is a used car worth? It's like asking how long is a piece of string. You can put any value on it you want and you move that value through the system.

I have seen this across the world, in multiple sectors. I even worked on an investigation once in—

Mr. TAYLOR. I need to just try to refocus you back on my original question, which was, what are you seeing in terms of illicit transactions, and so the \$1.7 trillion transactions we are talking about today, in hard cash, right, like physical dollars versus electronic transactions versus crypto? What is that mix?

Ms. PETERS. I am actually saying I don't think there is a huge amount of crypto. It is growing, but I think that the bulk of criminal transactions that we see are put into trade. Criminal networks that I have studied across the world and across various sectors of crime will buy commodities.

Mr. TAYLOR. So you are saying it is a barter—you are saying the transfer—

Ms. PETERS. A literal barter of goods.

Mr. TAYLOR. —it is a barter across, but obviously, there is cash on the consumer side.

Ms. PETERS. And cash will move through banks, but it will be hidden as a trade-based money laundering operation.

Mr. TAYLOR. Okay. So it is electronic transactions that are—

Ms. PETERS. And there is a significant amount of cash-based smuggling, particularly in certain sectors, and I certainly have worked on cases where we have seen literally planeloads of cash being moved from one country to another.

Mr. TAYLOR. So, hard cash is big—

Ms. PETERS. Hard cash.

Mr. TAYLOR. —and electronic—

Ms. PETERS. Cash smuggling certainly takes place, but cash is heavy. It is physically heavy and it is hard to place back into the financial system, so it becomes a burden.

What I see as by far the biggest phenomenon of how illicit money moves around the world is in trade-based money laundering transactions.

Mr. TAYLOR. But it is electronic transactions masked as trade?

Ms. PETERS. Ultimately, yes, it goes through the SWIFT system.

Mr. TAYLOR. Okay. And then the other—we have about a minute here, so the other question I had for you was the dark web versus legitimate websites. So, Silk Road, and there was a pretty good Wired magazine article a couple of years back talking about giving taxonomy to Silk Road. They were estimating there was about \$50 million in transactions per month that were taking place on Silk Road.

What is incredible is the amount of resources that went into that, and literally it led to the sentencing of just one person. Right? So, you are moving \$50 million in drugs a month, a tremendous amount of law enforcement by the United States, and only one person went to jail on that particular website.

What are you seeing, dark web transactions versus legitimate website transactions? In other words, if we pursued your Section 230 liability idea, just for legitimate websites, Facebook, what is that going to do, versus—

Ms. PETERS. My organization focuses exclusively on illicit activity that is happening on surface web platforms, simply because we don't have the capacity to also look at the dark web. There is so much of it happening on ordinary platforms that are on all of our phones—Google, Facebook, Twitter, Instagram, WeChat. There is certainly illicit activity taking place on the dark web but most people don't know how to get onto the dark web.

Mr. TAYLOR. Right. Thank you. I apologize. I am out of time. I yield back, Mr. Chairman.

Mr. PERLMUTTER. The gentleman yields back. I should mention that Mr. Hill and Mr. Foster of Illinois are working on digital currency issues that you just brought up as to whether or not there should be a Federal digital currency.

But I want to turn to another gentleman from Illinois, Mr. Garcia, and he is recognized for 5 minutes.

Mr. GARCIA OF ILLINOIS. Thank you, Mr. Chairman, and Ranking Member Hill, for this hearing, and thank you to all of the outstanding witnesses who have joined us today. Your testimony shows how critical financial services and the global financial system are to illegal trafficking networks, and how connected those networks are to the wide range of policies we consider at the Federal level, from drug policy to international relations.

On cartels and U.S.-Mexico policy, Professor Realuyo, you shared a lot of information with us about the cartels in Mexico. Drugs are flooding north into the U.S., guns are heading south into Mexico, and each side seems to blame the other. In your written testimony, you note that 80 percent of weapons used by criminals in Mexico come from the United States. President Trump and Mexican presi-

dent Lopez Obrador have pledged to work together to curb arms trafficking, but this has been a contentious issue for years.

Professor Realuyo, have there been any substantive changes recently in how both countries deal with the smuggling of weapons?

Ms. REALUYO. Sadly, because of what happened to the LeBaron family in November, we have always had these bilateral security cooperation meetings, but this time, both sides have actually dedicated much more visibility and time to looking at the firearms trading.

I spend lots of time at the border, and when you cross the border, very rarely does the U.S. actually check outbound, and even more rarely do the Mexicans check what is coming inbound.

We went to Nogales, crossed 4 times, just as a test, with an unmarked—not a government vehicle—just to take a look, and unfortunately, they didn't check for cash or guns. What we are trying to do, too, is try to raise awareness, and what is also quite interesting is once they did the study there, is a lot of diversion, because of the corruption of the security forces in Mexico of guns that are also being used by the cartels of diversion.

So at least it is an agenda item that has been raised to the higher, in terms of every meeting that is had now with Ambassador Landau there, they are actually focusing a lot more, because of the violence rate that was recorded last year in Mexico.

Mr. GARCIA OF ILLINOIS. And as a follow-up, what policy changes could we make here in Congress to help curb the flood of guns to Mexico, and a brief one, please.

Ms. REALUYO. Yes. Obviously, each State in our Federal system has its own recognition of how they control the sale of guns, but, more importantly, I think raising awareness of the average American that the violence that could come to our borders is actually caused by the firearms that are coming from the United States. It is nothing new, but sadly it takes these breaking news events on CNN and Fox News to actually get the average American to realize this, and sadly, no congressional district is immune to the opioid epidemic, as you know from your State.

Mr. GARCIA OF ILLINOIS. Thank you so much. Dr. Kassenova, on the topic of transparency and corporate ownership, you write that the U.S. lags behind many countries in requirements for transparency about who owns companies and trusts. This is a problem for the proliferation of weapons but it has effects throughout our economy.

Dr. Kassenova, how would bringing U.S. transparency standards for corporate ownership in line with EU standards make it easier for law enforcement and regulators to catch bad actors?

Ms. KASSENOVA. I think it will help on two levels. It will help domestically because then we will know, in terms of in the U.S. context, who is actually controlling the company standing behind the companies, because we know there is so much deceit that is happening behind the non-transparent corporate structures.

But there is also another level, which is connected to the international context and the norm making. The more countries you have who require that transparency, the more you reduce the space in which these malicious actors can operate.

Mr. GARCIA OF ILLINOIS. Okay. Thank you. And at the 56-second mark, Ms. Swift, how can industry and regulators work together to make sure that we have the best information possible for investigating and stopping financial crimes?

Ms. NGUYEN SWIFT. Thank you. I think that the industry needs to learn more from investigators. I think government is in a very special place to be able to make that happen. Right now, there are a lot of disparate opportunities that are happening, conversations that are happening, intelligence gathering that is happening. However, there is not one coordinated effort to bring all of this knowledge and data together so that we can learn from it collectively.

So, I think government is in a place where they can pull together reports, pull together studies and committees with the appropriate actors and appropriate stakeholders in order to move that ball forward.

Mr. GARCIA OF ILLINOIS. Thank you very much. Mr. Chairman, I yield back.

Mr. PERLMUTTER. The gentleman yields back. Mr. Timmons from South Carolina is now recognized for 5 minutes.

Mr. TIMMONS. Thank you, Mr. Chairman. Professor Realuyo, I went to McAllen, Texas, with a number of my colleagues a year ago, in March, and it was what I would consider maybe the height of the challenges we were facing at the southern border. It was really eye-opening and shocking the stories we heard from the Customs and Border Patrol and the ICE agents. Is it your understanding that things have improved in the last 12 months? Could you speak to that?

Ms. REALUYO. Sure. Just from the official data, when we take a look at—we usually look at the border crisis more in terms of the movement of migrants and people than in the movement of drugs. And there had been some hypotheses that this huge onslaught of taking care of people first before drugs actually allowed the drug traffickers to take advantage of this idea of the bubble, in terms of the balloon that you squeeze.

The numbers are quite promising in terms of the lower number of interdictions, and more importantly, what we are seeing in terms of people moving. And that is obviously attributed to a lot of the cooperation with Mexico.

Earlier in the hearing, we talked about, what do we need to do with our international partners to address these very challenging issues of trafficking. Once in Mexico, they realized that the problem of migrants not crossing the border was becoming their own problem in terms of social services, health, insecurity. They wised up, and at one point they secured their southern border. This is what you saw last year with the deployment of their newly minted National Guard, which has worked hand in hand with the U.S. in terms of enforcing border security on the southern border with Guatemala, with technology, but more importantly, on Mexico's northern border, which is our southern border.

Mr. TIMMONS. So there has been increased manpower on the Mexico side of the border that has helped address this issue?

Ms. REALUYO. And technology and skill set. The use of drones now to monitor, and more importantly, this way of actually doing much more interagency collaboration to figure out where the move-

ment of people and possible shipments of drugs is actually being relocated.

Mr. TIMMONS. In your testimony, you state that 90 percent of heroin in the U.S. originates from Mexico. Do you have any statistics on how much fentanyl originates from Mexico?

Ms. REALUYO. That is actually much more difficult because of the amount that is coming through the mail service first. But what is disturbing is that we are seeing more activity and more interest of the Mexican cartels to dominate the synthetic, which is not just fentanyl but methamphetamine, where we have seen, last year, an increase of use. So while methamphetamine is not as lethal as fentanyl, many of you know, in your districts, it actually manifests in a much more violent and a more addictive fashion, which then has other consequences in terms of violent crimes and acts that are committed by meth addicts.

Mr. TIMMONS. I was a State prosecutor for 4 years and we had issues with fentanyl, but that was just—they were tragedies. They weren't violent crimes, and meth really was a major problem, and still is a major problem in my district.

Ms. PETERS. I hate to say that I have never heard the term, "timber trafficking," before today. Could you talk about how that works? Just give me a better understanding.

Ms. PETERS. Well, timber trafficking takes place around the globe. I am not sure if it is on the list, but it is a very large global—

Mr. TIMMONS. Are they timbering forests and then saying they got the product from other places, or—

Ms. PETERS. There are a range of things happening. One is illegal deforestation of a range of woods. In some cases, it is endangered wood species or timber species that are protected internationally, like certain rosewood and hardwood species that are then mislabeled and then smuggled into end consumer states.

Mr. TIMMONS. So they are processed and then shipped and they are mislabeled, and it is not—

Ms. PETERS. Sometimes, it is processed in the place that it is smuggled out of. There will be lumber factories that will cut it down into planks or whatever, or make it into furniture. In other cases I have seen rough logs exported in containers.

Mr. TIMMONS. And are the end users generally the United States and Western Europe or is it all over the world?

Ms. PETERS. It can be the United States. I am familiar with at least one case that involved lumber liquidators who were busted for, perhaps not knowingly, but importing wood that had been illegally exported from, I believe it was Brazil. So, there is a tremendous amount of this timber trafficking going on, both in Latin America and in Africa, with a lot of the wood going to China these days, and some of it coming into the United States, certainly.

Mr. TIMMONS. Would you say that oftentimes, the end user is not aware that the timber is illegal?

Ms. PETERS. I think so, yes. Most of the time, the end user is not aware that it is illegal. In terms of the end consumer, I think that is often the case. I am not sure about the companies that are purchasing the timber, in the middle part of the supply chain.

Mr. TIMMONS. Sure. Mr. Chairman, I yield back.

Mr. PERLMUTTER. The gentleman yields back. The gentleman from New Jersey, Mr. Gottheimer, is recognized for 5 minutes.

Mr. GOTTHEIMER. Thank you, Mr. Chairman, and Ranking Member Hill, for calling this hearing, and thank you to all of the witnesses for being here today. We are very grateful.

I recently met with brave law enforcement officers from the Port Authority of New York and New Jersey's Police Department. As the United States' largest transportation police force, the Port Authority Police Department (PAPD) has unique experience and a very strong record of combating human trafficking at ports of entry in my region.

Since it was founded in the 1970s, the PAPD's renowned Youth Services Unit, located in the Port Authority's midtown bus terminal, the busiest terminal in the world, has intervened in thousands of human sexual trafficking cases, saving countless youth from victimization by predators.

Ms. Peters, if I can ask you a question please, based on your experience regarding trafficking methods here in the United States, should we deploy more front-line officers trained in detecting victims at transportation hubs like airports, train terminals, bridges, and tunnels, and other facilities?

Ms. PETERS. I believe there are important ways that, yes, front-line law enforcement and security forces in places like bus terminals and airport can be better trained to identify and potentially disrupt trafficking events. There have also been some initiatives by different industries, both the trucking industry and members of the transport industry, including firms like UPS and some airlines, to train their drivers to look for what appears to be trafficking and to report it. So, I think those are important initiatives that should be incentivized.

Mr. GOTTHEIMER. Thank you. Just following up on that, would you support the establishment of a regional center of excellence for human trafficking training for transportation and other specialized police to share techniques and expertise and undergo rigorous training and learn to deal with vulnerable youth and predatory traffickers?

Ms. PETERS. Yes. I think that would be a great idea, and, in particular, if it were placed in some of the hotspots in this country where there is a large amount of trafficking going on.

Mr. GOTTHEIMER. And, of course, in New Jersey and New York and that area, in the regional area, there is a large amount, correct?

Ms. PETERS. New Jersey, I believe, as well as Georgia has a big problem. Texas has a big problem. California. Honestly, it is a nationwide issue, but certain States that are on big trucking routes really are hit hard.

Mr. GOTTHEIMER. Thank you. It is why I believe the center is so important.

Ms. Nguyen Swift, if I can ask you a question please, given your experience as an attorney with the New York County District Attorney's Office, and your time in the private sector, can you speak to the importance of financial information-sharing and the ability to collect data to share to identify patterns and enable criminal investigations?

Ms. NGUYEN SWIFT. I think that is the only way we do it. The only way we can successfully prosecute cases is to tell the story through financial evidence, which supports and corroborates victim eyewitness testimony. As a prosecutor, we know how difficult it is to bring a case and to be able to rise up to the evidentiary standards that we must prove in terms of the elements of the crime.

So the only way that we can absolutely succeed in this is to bring together, again, the data from all aspects and perspectives, and then we learn from that. So as we continue to look at these cases, to be able to successfully prosecute and understand what data is important, we will be able to continue to learn and then give back to the financial community, and the cycle goes on.

Mr. GOTTHEIMER. Thank you. Do you believe that the current financial intelligence system we have in place is effective in providing the proper data and law enforcement to combat trafficking?

Ms. NGUYEN SWIFT. I think it is getting there, but I think we can do a lot better. I think there are a lot of mechanisms that are currently in place that attempt to get us to that point, but I think it is still very difficult for financial institutions to share information with each other and not so much with law enforcement, but also the ability for non-financial institutions such as nonprofit organizations, and other government agencies, to also share back data to financial institutions is extremely important.

Mr. GOTTHEIMER. Just one more for you, when a transportation police officer makes an arrest of an individual in connection with a trafficking investigation, what information can be used by investigators to track down a wider network?

Ms. NGUYEN SWIFT. Anything that person has on them—identification, any sort of understanding in terms of, if there are funds that are on them, phones, any electronic devices. Everything is being done electronically these days, so identification for the machine ID, user IDs, any of those things can be traced to financial records, and then ultimately, financial transactions that are contained in the wire.

Mr. GOTTHEIMER. Thanks. Shifting a little bit, I proposed bipartisan legislation called the FASTER Act to help law enforcement freeze the assets of terrorists or other extremists to prevent these funds from being hidden in the system, and used to carry out another attack by friends or family or unknown accomplices. It also calls for a national home-grown terrorism incident clearinghouse for law enforcement to collect and share information on incidents to help investigate and thwart future attacks. I believe this data-sharing and other data-sharing is essential, and anything we can do in Congress to the facilitate information-sharing, that you were talking about, I think will help, especially in this effort.

Ms. NGUYEN SWIFT. Absolutely.

Mr. GOTTHEIMER. Thank you so much for your time today, everyone. Thank you. I yield back.

Mr. PERLMUTTER. The gentleman from New Jersey yields back. The gentleman from Virginia, Mr. Riggleman, is recognized for 5 minutes.

Mr. RIGGLEMAN. Thank you, Mr. Chairman, and thank you all for being here. I am sorry if I am a little bit excited. The day before I was elected, I was a senior consultant at the Pentagon actually

dealing with, and hearing about attack modalities, title authorities, application machine learning, and then talking about selectors. I got pretty excited. So, we should have some fun today, with all of the things I have done in the last 26 years.

And this is pretty timely for me. I have a huge district, 10,000 square miles. In Axton, Virginia, we just had four members of the Jalisco cartel caught, and they are actually in court now, just last week. When we talk about methamphetamines, and I appreciate that that seems to be the drug of choice right now, we have opioid activity, heroin, K2, you know, synthetic marijuana, but we also have a massive methamphetamine problem. So, I thank you all for being here today.

I want to start with you, Ms. Realuyo. You said, “modality,” so I got really excited about that. We are talking about attack modalities and technologies that we see at the border right now. What do you think the most challenging segment or attribute portions of those modalities are when you are trying to figure out the technology issues that you have? For example, when you are looking at an attack modality, is it knowing our own environment? Is it information-sharing? Is it technology within the network? Where do you see those gaps specifically on those modalities when we are talking about on the border and those specific technologies?

Ms. REALUYO. I teach cybersecurity as well, but we are never going to get to the point that technology will replace an actual human being. We work with a lot of military and law enforcement. We always talk about that sixth sense that something is not right, or a red flag.

What we are trying to do is better incorporate the use, whether it is unmanned drones or detection devices, to figure out what is in a container. You still have to have a trained human being and an analyst and law enforcement agent who can actually understand what they are seeing.

I had the privilege, a couple of weeks ago, to go to Santo Domingo, which is a huge container port that is the transit point for a lot of Colombian cocaine, going through the Dominican Republic, coming to the United States, but even more so, going towards Europe. And those x-ray machines are fantastic, but unless we are able to train our counterparts, who are the eyes and ears pushing that border out, it is all for naught, because the technology will never actually replace human beings.

And what I fear is that the technology, and more importantly, the illicit networks, are gaining so much ground because they are so nimble and have tremendous resources, to have the better equipment of night vision goggles, and our own soldiers do, we need to get much more nimble and also hire a different profile, in terms of cyber analysts who can actually help to understand how cyber is the new domain, and then more importantly, what the cyber instruments that we can use to complement our military intelligence and financial instruments in national power.

Mr. RIGGLEMAN. It is amazing that you say that, because we were actually trying to template human behavior with machine-learning rules and finding out that we were missing some key segments. Even when we thought we had it right, we just couldn't get it down.

And Ms. Peters, when you talked about transnational networks analysis, and you talked about information-sharing, again, I got pretty excited. I don't hear much when people are talking about title authorities, which is one of the biggest problems that we had in DoD and also in NSA was actually the information-sharing component.

Right now, do you see that the biggest issue is technology, is it funding, or do you actually think it is the policies that are in place for information-sharing that are preventing us from doing a little bit more as far as doing analysis or aggregation of data?

Ms. PETERS. That is a very good question. I would actually probably say all three of those issues, to some extent, combine to create the challenges we have. Information-sharing, having been on the operational side of some of these investigations, is a really challenging aspect, particularly if you are operating in a multinational environment and you don't quite trust the folks that you are working with. But even within the U.S. interagency, I have seen one group of law enforcement or intelligence operatives try to get credit for something another group does. There are incentives for people not to share data.

Mr. RIGGLEMAN. That is correct.

Ms. PETERS. And we have to accept that those incentives exist, and that there is also a constant challenge between information-sharing and operational security. The more information gets passed around, the less secure it is.

And I guess I have seen some operations that have worked really well, but it is very much personality-driven between the different agents from different agencies, such that if they can get along, they work together great. But I think programs to help those inter-agency groups in a particular region or on a particular supply chain, get to know each other, hang out together, drink some beers together, those are the kind of things that might sound silly but they actually —

Mr. RIGGLEMAN. No, they work. I own a distillery. It works. Trust me, it does work. And I think it is really about kicking over rice bowls, isn't it?

Ms. PETERS. I am the author of, "The Martini Glass."

Mr. RIGGLEMAN. So, we could get along very well. I wish I had more than 10 seconds, because I was going to go to Ms. Nguyen Swift and talk about AI/ML and actually some of the issues that you have. But I only have 5 seconds, and I want to yield my time back, so thank you all very much for being here today.

Mr. PERLMUTTER. The gentleman from Virginia yields his time back. If he has other questions, he can submit them in writing to the panel.

The gentleman from California, Mr. Sherman, who is also the Chair of our Subcommittee on Investor Protection, Entrepreneurship, and Capital Markets, is recognized for 5 minutes.

Mr. SHERMAN. I know it will come as a shock to my colleagues, but I want to talk a little bit about cryptocurrency. Right now, the biggest currency is Bitcoin. The disadvantage of Bitcoin is you can't really go buy a turkey sandwich with a Bitcoin anywhere around here. There are onramps and offramps, and eventually you need to convert.

We had, sitting where you are now, Dr. Kassenova, our friend, Mr. Zuckerberg, who is putting forward the Libra, the “Zuck buck,” which, if he is successful, will be Bitcoin on steroids, and he has envisioned there to be a way where you wouldn’t need an onramp and an offramp because you could actually spend Libra.

There are two organizations that are allies, Hezbollah and Hamas, and if you are engaged in a criminal enterprise it helps to have the ideological cohesions of some political cause. Hezbollah has used that very successfully to be an effective drug dealer.

Behind you is a screenshot from a video from the Qassam Brigade of Hamas, and it is nice enough that this video has it in both Arabic and English, and we have translated the Arabic and we find out that Hamas does a good job of translating into English. They have it right there on the screen, “Bitcoin is a cryptocurrency that cannot be traced.”

Ms. Realuyo, the video that I have referred to provides Hamas supporters with detailed instructions on how to donate to the terrorist group without tipping off law enforcement. According to The New York Times, in the most recent version of the Hamas website, every visitor is given a unique Bitcoin address where he or she can send digital currency, a method that makes donations nearly impossible to track. A recent report by the think tank, the International Institute for Counter-Terrorism (ICT), indicates that one Hamas-controlled Bitcoin wallet traded 3,370 Bitcoins, or over \$29 million in just one day.

How can criminals, terrorists, and sanctions evaders use cryptocurrency to evade our efforts? And then, I will ask if anyone else on the panel has a comment on this.

Ms. REALUYO. Sure. As we have seen over the past 20 years since the tragic attacks of 9/11, we have been focusing on following the money, but more importantly, our counterparts and our adversaries have been evolving in the way that they are trying to finance themselves and then physically move money.

I have seen, and more importantly, have been following this issue of Hamas, and it is very innovative—you have to give them credit—fundraising schemes. But as we also know, Bitcoin tracing is actually not totally anonymous. What we are worried about is the evolution of thousands of other cryptocurrencies that are much more difficult to trace, that are becoming anonymizers.

We have also seen that other groups closer to home—in Venezuela, as many of you know, they are actually using cryptocurrencies to engage not just in criminal activities but actually how to send remittances. So we have to take a look at how those types of criminal activities in the cyber space are being co-opted by criminal insurgencies and groups, not just what we would see as the traditional Islamist terrorist groups.

We have to be better about monitoring and understanding how they are doing it, but I am more fascinated by who is actually going on there, and then more importantly, giving the money, because that is the next generation of fighters that we are going to be—

Mr. SHERMAN. Hamas and Hezbollah have ideological appeal. ISIS has been destroyed territorially but not ideologically or theologically. And the more capable, the more used these

cryptocurrencies are, the more powerful tool they will be for those trying to escape international, especially U.S., law enforcement.

Does anyone else have a comment? Yes, Dr. Kassenova?

Ms. KASSENOVA. In the 9 seconds that I have, I will just give you another example. With North Korea, for example, when they do cyber attacks and then do ransomware, they force their victims to pay in cryptocurrency and then they recycle through several stages. They don't cash out immediately, but they cash out eventually.

Mr. SHERMAN. Thank you. I yield back.

Mr. PERLMUTTER. The gentleman from California yields back.

I would like to thank our witnesses for their testimony today.

The Chair notes that some Members may have additional questions for this panel, which they may wish to submit in writing. Without objection, the hearing record will remain open for 5 legislative days for Members to submit written questions to these witnesses and to place their responses in the record. Also, without objection, Members will have 5 legislative days to submit extraneous materials to the Chair for inclusion in the record.

This hearing is now adjourned.

[Whereupon, at 12:02 p.m., the hearing was adjourned.]

A P P E N D I X

March 4, 2020

**Congressional Testimony for the House Subcommittee on National Security,
International Development and Monetary Policy**

March 4, 2020 Hearing:

*"The Trafficker's Roadmap: How Bad Actors Exploit Financial Systems to Facilitate the Illicit
Trade in People, Animals, Drugs, and Weapons"*

Testimony Prepared by:
Travis L. Adkins

Global Overview

The United Nations *Protocol to Prevent Suppress and Punish Trafficking in Persons Especially Women and Children*¹ defines "trafficking in persons" to mean:

"the recruitment, transportation, transfer, harboring or receipt of persons, by means of the threat or use of force or other forms of coercion, of abduction, of fraud, of deception, of the abuse of power or of a position of vulnerability or of the giving or receiving of payments or benefits to achieve the consent of a person having control over another person, for the purpose of exploitation. Exploitation shall include, at a minimum, the exploitation of the prostitution of others or other forms of sexual exploitation, forced labor or services, slavery or practices similar to slavery, servitude or the removal of organs."

This global phenomenon has destructive and far-reaching social, economic, and political implications for individuals and governments at the local, national, regional, and international levels².

Individual victims of human trafficking suffer from a wide range of physical and psychological abuse, including torture, death; sexual assault; family separation; forced marriage; suicide, stigma, disease, the inability to marry and have children, and being forced to kill family members³.

The social impacts of human trafficking can include demographic shifts due to the loss of child-bearing women and young men; abduction of children as soldiers; discrimination against

¹ United Nations. (2013). Protocol to Prevent, Suppress and Punish Trafficking in Persons, Especially Women and Children, supplementing the United Nations Convention against Transnational Organized Crime, New York, 15 November 2000; Registration: December 25, 2003. Available at https://treaties.un.org/Pages/ViewDetails.aspx?src=TREATY&mtdsg_no=XVIII-12-a&chapter=18&lang=en

² Organisation for Economic Co-operation and Development (OECD). (2016). Illicit Trade: Converging Criminal Networks.

³ Shelley, L. (2018). Dark Commerce: How a New Illicit Economy Is Threatening Our Future.

members of ethnic minorities trafficked into new societies; and increased violence due to discrimination⁴.

Politically, human trafficking is both a symptom and cause of official corruption - contributing to its erosive impacts on the rule of law. Its use in the funding of warring parties; the resulting increases in conflict; which can decrease national or regional stability; diminish human rights protections; and fund insurgents or terrorists⁵.

The economic and labor impacts of trafficking are evident in both countries of origin and destination – these include poor working conditions; depressed salaries in destination countries; loss of remittances to countries of origin; diversion of economic benefits of the victims labor from themselves, their families and communities; increased income inequality; poor working conditions; and economies based on trafficking and sexual tourism⁶.

While the covert nature of human trafficking makes it difficult to obtain an accurate measure of its volume and value at a global scale, the International Labor Organization (ILO) estimates that 20.9 million people are trafficked into forced labor (including sexual exploitation) worldwide, generating an estimated \$150 billion annually⁷.

Profile of Victims & Types of Exploitation

Though there is some variance by subregion and form of exploitation, women and girls are the primary targets of human trafficking worldwide. They account for 72% of trafficking victims detected globally – with women comprising 49% of the total and girls making up 23%⁸. Of the remaining trafficking victims detected, 21% are men, and 7% are boys⁹.

While the exploitation of trafficked human beings takes place in a variety of forms – the two most prevalent are sexual exploitation and forced labor. Trafficking for sexual exploitation is the most detected form worldwide, with the vast majority of its victims being adult women (68%), while girls comprise 26%¹⁰. Trafficking for forced labor is the second most detected form, where men comprise the majority (65%), and women and girls comprise the remaining 35%¹¹

⁴ Shelley, L. (2018). *Dark Commerce: How a New Illicit Economy Is Threatening Our Future*.

⁵ Shelley, L. (2018). *Dark Commerce: How a New Illicit Economy Is Threatening Our Future*.

⁶ Dixon, J. (2008). "The Impact of Trafficking in Persons" in *An Introduction to Human Trafficking: Vulnerability, Impact and Action*, United Nations Office on Drugs and Crime, New York.

⁷ International Labour Organization. (2017). *2017 Global Estimates of Modern Slavery*.

⁸ UNODC, *Global Report on Trafficking in Persons 2018*.

⁹ UNODC, *Global Report on Trafficking in Persons 2018*.

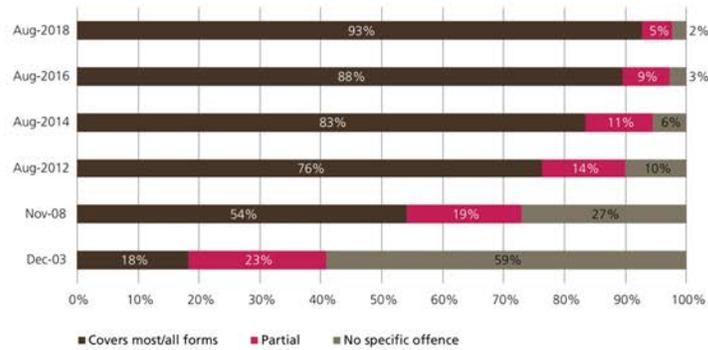
¹⁰ UNODC, *Global Report on Trafficking in Persons 2018*.

¹¹ UNODC, *Global Report on Trafficking in Persons 2018*

Trends – Legislation & Enforcement

Since the almost universal ratification of the United Nations Trafficking in Persons Protocol in 2003¹² – ratified by 190 states - 93% of those parties have now criminalized trafficking in persons¹³.

FIG. 46 Criminalization of trafficking in persons with a specific offence covering all or some forms as defined in the UN Protocol, shares of countries 2003-2018



Source: UNODC elaboration of national data.

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This surge of legislative schemes criminalizing human trafficking worldwide coincides with increased reports of the detection of trafficking victims over the past several years¹⁵. While this could indicate an increase of trafficking in persons, it might also indicate that national capacities for detecting human trafficking have improved¹⁶.

The Americas, Asia, Africa, and the Middle East have all recorded increases in detection, prosecution, and conviction rates for traffickers. However, once disaggregated, the global increases are primarily due to pronounced increases in the Americas and Asia. While the subregions of Sub-Saharan Africa, North Africa, and the Middle East have seen improvements, they still lag as the global subregions with the lowest rates of trafficking detection and

¹² Protocol to Prevent, Suppress and Punish Trafficking in Persons, Especially Women and Children, supplementing the United Nations Convention against Transnational Organized Crime, New York, 15 November 2000; Registration: December 25, 2003. Available at

https://treaties.un.org/Pages/ViewDetails.aspx?src=TREATY&mtmsg_no=XVIII-12-a&chapter=18&lang=en

¹³ UNODC, Global Report on Trafficking in Persons 2018.

¹⁴ UNODC, Global Report on Trafficking in Persons 2018.

¹⁵ UNODC, Global Report on Trafficking in Persons 2018.

¹⁶ UNODC, Global Report on Trafficking in Persons 2018.

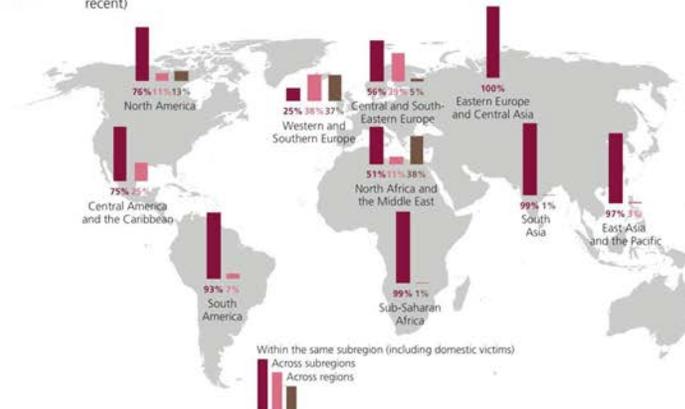
convictions – making them vast regions of relative impunity for human trafficking. Several factors contribute to the lags in these subregions. These include, on average later adoption of the United Nations Trafficking in Persons Protocol, weaker legislative/criminal codes to address the issue, inadequate enforcement of existing laws, and elevated rates of official corruption facilitating the perpetuation of trafficking.¹⁷

Trends – Flows & Movement

Though trafficking in persons remains an immense transnational and global challenge, and the term ‘trafficking’ itself is often misunderstood to denote movement across international borders - over the past 15 years, the largest share of trafficking victims worldwide have been detected within their subregion or domestic countries of origin. This phenomenon holds for the majority of world regions – each of which is highlighted below – with the percentage of trafficked person discovered within their subregion or country of origin¹⁸:

- North America – 76%
- South America – 93%
- Central America and the Caribbean – 75%
- Africa – 99%
- Eastern Europe & Central Asia – 100%
- South Asia – 99%
- East Asia & the Pacific – 97%

MAP 5 Share of detected victims by area origin and of detection, by subregion, 2016 (or most recent)



Source: UNODC elaboration of national data.

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¹⁷ UNODC, Global Report on Trafficking in Persons 2018.

¹⁸ UNODC, Global Report on Trafficking in Persons 2018.

¹⁹ UNODC, Global Report on Trafficking in Persons 2018.

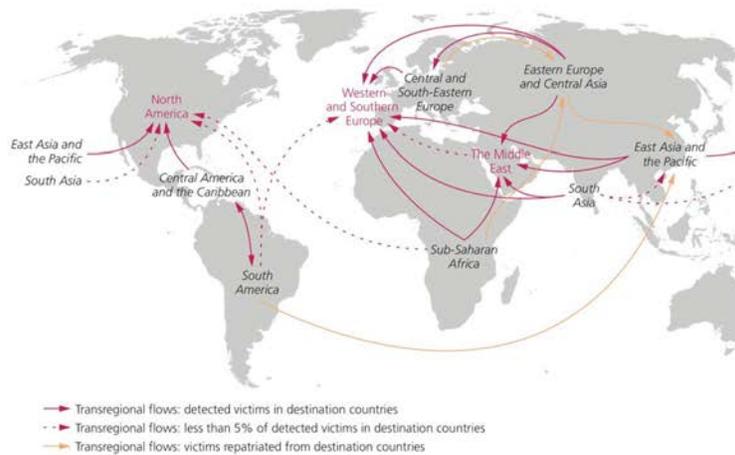
This increase in domestic detection of trafficked persons could be the result of the actual increase in the volume of people being trafficked in their subregions/countries of origin. Other factors could also be involved, such as the improved detection capacity of local authorities; or the heightened interception capacity of authorities who have strengthened controls at checkpoints and border crossings and who are detecting trafficked persons before they can leave the country²⁰.

The opposite phenomenon is true for the remaining regions of the world, wherein an equal or higher percentage of trafficked persons detected are from subregions and countries outside of the destinations to which they are trafficked. These regions comprise the primary destination sites for globally trafficked persons, they are:

- *Western & Southern Europe – 75%*
- *Central & Southeastern Europe – 44%*
- *North Africa and the Middle East – 49%*

These trends highlight another pattern in the flows of trafficked persons globally: the movement of persons from more impoverished regions into wealthier and more affluent countries in the world. Detected trafficking flows towards richer countries are the most geographically diverse²¹.

MAP 6 Main detected transregional trafficking flows, 2014-2017



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²⁰ UNODC, Global Report on Trafficking in Persons 2018.

²¹ UNODC, Global Report on Trafficking in Persons 2018.

²² UNODC, Global Report on Trafficking in Persons 2018.

Data Collection

The global increases measured in the detection of victims of trafficking, as well as in the prosecution and conviction of traffickers is largely the result of the increase in countries who, having ratified the United Nations Trafficking in Persons Protocol, are now able to effectively monitor, track and share their data amongst a variety of key stakeholders²³.

These nations have achieved such improvements through the creation and revision of relevant legislation; the adoption of national action plans on trafficking in persons; the strengthening of the investigative and prosecutorial coordination and capacity; the classification of trafficking as a grave criminal offense; or other measures to identify, protect and support victims of trafficking²⁴.

While these developments have been uneven across regions – with nations in the Americas and Asia making the greatest strides in data collection capacity and nations in Africa and the Middle East making the least progress²⁵ – these outcomes nonetheless demonstrate an upward trend in the global capacity to develop a clearer snapshot of the scale and impact of human trafficking.

If the global community is to effectively address the challenge posed by human trafficking and other forms of illicit trade, the increase of the production of data, analysis, and broader sharing between nations, multilaterals, academic and research institutions, law enforcement bodies and civil society actors must be a priority.

Human Trafficking in Africa

While human trafficking and its convergence with other forms of illicit trade are justifiably viewed as security threats – in their utility to finance transnational criminal organizations (TCOs) and terrorist groups – these threats are also rooted in the deep development challenges posed by weak and ineffectual states that cannot adequately protect, educate or provide services for their citizens.

The vulnerabilities that poverty, conflict and instability create in societies – establish the enabling environments in which TCOs and terrorist groups exploit citizens by means of human trafficking; forced labor; forced marriage; sexual slavery and exploitation; and recruitment as child soldiers²⁶.

²³ UNODC, Global Report on Trafficking in Persons 2018.

²⁴ UNODC, Global Report on Trafficking in Persons 2018.

²⁵ UNODC, Global Report on Trafficking in Persons 2018.

²⁶ FATF - APG (2018), Financial Flows from Human Trafficking, FATF, Paris, France, www.fatf-gafi.org/publications/methodandtrends/documents/human-trafficking.html

The majority of trafficking victims detected in Sub-Saharan Africa are children and divided nearly equally between boys and girls²⁷. In 2016, an estimated 357 million children in Sub-Saharan Africa (SSA) lived in conflicted affected areas²⁸ and were at risk of being exploited by an armed group or by other traffickers. This vulnerability is especially alarming, as all demographics of potentially trafficked persons are more vulnerable in settings that produce displacement, refugee flows, or transitions into the status of internally displaced persons.

West African nations detect the most trafficking victims overall, which can skew the data from the rest of SSA. Children involved in forced labor comprise the majority (63%) of victims from the region. The second-largest group of trafficked persons across the subregion was women who were forced into sexual exploitation – which accounted for slightly less than one-third of all trafficking victims continent-wide.

SSA and the Middle East and North African nations have the lowest rates of detection for trafficked persons and the lowest rates of prosecution and conviction for traffickers. Despite this, trafficked persons from SSA have been detected in more than 60 nations within and outside of Africa, which highlights the region's limited capacity for detection.

Where the international flows of trafficked persons from SSA are concerned, the most significant numbers are detected in Western and Southern Europe, and countries in North Africa and the Gulf Cooperation Council countries also detect victims from both East and West African nations. A less intense flow (under 5%) of trafficking victims originating from SSA is detected in North America annually.

This lack of detection capacity is symptomatic of the larger developmental challenges of the region: poor governance, official corruption, extreme poverty, regional instability, conflict and excessive disease burdens. These place African populations at greater risk for the abuse, exploitation and trauma of human trafficking.

Illicit Flows & Convergence

In the context of illicit flows, *convergence* describes a scenario in which a crime syndicate or terrorist group develops effective trafficking routes that are reliably undetected and can accommodate different classes of products, providing the opportunity to move all types of contraband through a wide range of criminal activities²⁹.

²⁷ UNODC, Global Report on Trafficking in Persons 2018.

²⁸ Save the Children, 2017, The War on Children, p. 15.

²⁹ OECD. (2016). Illicit Trade: Converging Criminal Networks.

The illicit market for trafficking in persons, has been linked to multiple crimes, including kidnapping, fraud, document forgery, assault, rape, false imprisonment, breaking immigration and border laws, corruption of government officials, money laundering and tax evasion³⁰.

At its root, human trafficking is both a symptom and driver of official corruption – which contributes to all phases of trafficking. It aids recruitment by creating opportunities for traffickers to create fraudulent recruitment agencies. It facilitates the transport and transfer of trafficking victims by allowing traffickers to use fake documents, it permits the issuance of visas to unqualified individuals, and supports traffickers in the evasion of inspection of vehicles, documents and people. It also aids the harboring and receipt of people by allowing traffickers to obtain fake work permits and birth certificates, and to continue operating businesses based on exploitation³¹.

Trafficking in persons also converges directly with other more explicit illicit flows including drug trafficking; illegal and undeclared fishing; maritime piracy; arms trafficking; environmental crimes; and tobacco smuggling³². Criminal and terrorist organizations diversified beyond the drug trade and into human trafficking as they provide the convenient convergence of drug use and dependency – which create victims who are easier to target for trafficking³³. Transnational marine resource crimes have also been linked to human trafficking as the ease of utilizing fishing vessels for transport and other criminal purposes creates convergences of convenience³⁴.

The agility, complexity and sophistication of many transnational organized crime groups allows them to organize in a variety of ways, drawing in a range of societal actors – some unwittingly – and other through bribes and kickbacks. The groups employ not only criminals, but formerly trafficked victims – to recruit others; military and law enforcement personnel and border guards for protection against arrest, help in maintaining trafficking victims and ease in transport and communication between recruiters.³⁵

Illicit flows also converge at the boundaries and bottlenecks of legal flows. From the perspective of criminal networks involved in various forms of trafficking, national borders; prohibitive laws; and taxation and financial regulations create the very market barriers which most people cannot navigate, thus providing traffickers the business opportunities to meet demands deemed illegal for the gain in illicit profits³⁶.

³⁰ Aronowitz, A (2009). *Human Trafficking, Human Misery: The Global Trade in Human Beings*, Greenwood Publishing Group, Westport, CT.

³¹ APEC. (2013). "Chair's Summary" in *APEC Pathfinder Dialogue with ASKEAN & PIF Partners*, Asia-Pacific Economic Cooperation, Bangkok, Thailand.

³² OECD. (2016). *Illicit Trade: Converging Criminal Networks*.

³³ OECD. (2016). *Illicit Trade: Converging Criminal Networks*.

³⁴ OECD. (2016). *Illicit Trade: Converging Criminal Networks*.

³⁵ OECD. (2016). *Illicit Trade: Converging Criminal Networks*.

³⁶ OECD. (2016). *Illicit Trade: Converging Criminal Networks*.

Conclusion

Our interconnected world is defined by hyper mobility, intensified use of cyberspace, increasing urbanization and population growth. These elements help create thriving global economies, increased productivity, and efficiencies in global travel and communications. As transnational and terrorist organizations co-opt these same advances for their illicit ends, the global community of nations must increase its awareness, engagement and collaboration to address this threat.

This will necessitate continuing improvements in tracking, monitoring and data collection of TCOs and terrorist organizations. It will also require increased data sharing between sovereign states; multilateral institutions; transnational corporations and financial institutions; law enforcement agencies; think tanks; universities and civil society organizations.

Improvements in these areas, alongside a concerted effort for national legislative strengthening, to identify and attack illicit networks in their most vulnerable areas of operation, should help to close the gaps in operational agility that allow them to outpace us at the moment.

While we must remain vigilant to undermine the methods of these convergent forces, we cannot ignore the conditions that facilitate it. Illicit trafficking does not take place in a political vacuum, but rather adapts itself to the nuances of its environment. As the data herein suggests, illicit flows are much more often detected in nations with stronger governance, greater wealth and better infrastructure – which in turn produces more prosecutions and convictions of bad actors.

In nations which lack the positive enabling elements for combatting trafficking, we see a convergence of factors which create environments that *support* the increase in human trafficking. In these settings, it is insufficient to suggest legislative and policy remedies solely targeted towards illicit flows. These settings require that we deeply examine the underlying causes of illicit trafficking – namely, extreme poverty; weak governance; inadequate education; absence of the rule of law; political instability; excessive disease burden and unresolved violent conflict.

If we will not seriously address these underlying issues – which place regions like Sub-Saharan Africa and the Middle East and North Africa at the tail end of indicators for the detection and prosecution of traffickers, then we ultimately are not serious about addressing the roots of the problem. Illicit traffickers; terrorist organizations and other bad actors coalesce in the corners of the world which we neglect and ignore – they always have and they always will.

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STATEMENT OF

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Before the Subcommittee on National Security, International Development, and Monetary Policy
for a hearing entitled “The Traffickers’ Roadmap: How Bad Actors Exploit Financial Systems to
Facilitate the Illicit Trade in People, Animals, Drugs, and Weapons.”

**THE EXPLOITATION OF THE GLOBAL FINANCIAL SYSTEM FOR WEAPONS OF
MASS DESTRUCTION (WMD) PROLIFERATION**

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**The exploitation of the Global Financial Systems for Weapons of Mass Destruction (WMD)
Proliferation**

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1. WMD Proliferation as a Security Risk
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1. WMD Proliferation as a Security Risk

Weapons of mass destruction – nuclear, biological, and chemical weapons - present a persistent risk to the U.S. and international security. If a 10-kiloton nuclear bomb, like the one tested by North Korea in 2013, is dropped in Washington, DC, a fireball of almost 500 feet in radius will cover the city. The radiation will reach such high levels within a half a mile radius that 50-90% percent of people could die without medical help – some of them within hours.²

When it comes to preventing WMD proliferation, we need to be conscious of both state and non-state actors. North Korea continues to procure sensitive goods for its nuclear and missile program in defiance of sanctions. Iran is procuring missile-related goods. Agents working on behalf of Syria have sought chemical goods on the commercial market. Several groups, such as Al Qaeda and ISIS, demonstrated interest in acquiring a WMD capability. We do not have a full picture of who might be interested in obtaining a WMD capability in the future.

¹ This testimony is based in part on research findings published in Togzhan Kassenova, "[Proliferation Financing: What Financial Institutions Should Know and What They Can Do](#)," ACAMS Today, September-November 2019, pp. 18-22; Togzhan Kassenova, "[Challenges With Implementing Proliferation Financing Controls: How Export Controls Can Help](#)," *World ECR: The Journal of Export Controls and Sanctions*, May 2018.

² Projection from Alex Wellestein, "[Nukemap](#)."

2. How Proliferation Networks Operate

Stealing or buying a ready-made weapon is a next to impossible feat. The main path to a WMD is to procure components, material, and technology and then build a weapon. Because most goods usable in a WMD program are dual-use in nature, with indispensable civilian purposes, they are available on the international commercial market.

The international community attempts to minimize the risk that trade in dual-use and military goods entails. The international export control regimes and national export control systems are designed to regulate trade in sensitive items by requiring traders to obtain licenses. Additionally, the international and unilateral sanctions regimes target known proliferators.

The goal of proliferators and their agents is to acquire goods that can contribute to WMD programs without being caught. Proliferators and their networks continue to defy both export controls and sanctions.

Proliferation networks come in all sizes and shapes. They can be small or large, loose, or more organized. Those buying WMD-related goods can be directly connected to proliferator states, or they can do it purely for profit by inserting themselves into the illicit market to make money.

Proliferators have perfected methods that help them stay under the radar.³ One of the standard techniques they use is to buy goods that are slightly below the controlled threshold. This means that unless exporting companies are incredibly vigilant,⁴ they would not apply for an export license

³ Daniel Salisbury, "Why Do Entities Get Involved in Proliferation? Exploring the Criminology of Illicit WMD-Related Trade," *The Nonproliferation Review*, 24:3, 2017, 297-314; Daniel Salisbury, "An Evolving State of Play? Exploring Competitive Advantages of State Assets in Proliferation Networks," *Defense & Security Analysis*, January 17, 2019; Daniel Salisbury, "Exploring the Use of 'Third Countries' in Proliferation Networks: The Case of Malaysia," *European Journal of International Security*, 4:1, 2019, 101-122; Glenn Anderson, "Points of Deception: Exploring How Proliferators Evade Controls to Obtain Dual-Use Goods," *Strategic Trade Review*, Volume 2, Issue 2, 2011, 4-24.

⁴ Under "catch-all" provisions of export control systems, companies must apply for a license even for a non-listed item, if there is belief, knowledge or suspicion that good in question may be used in a WMD program.

and subject transaction to government scrutiny. However, these slightly inferior goods can still be used for nefarious purposes.

There is another method proliferators use to avoid government oversight and licensing—they pretend they are ordering goods for a domestic company. In such cases, supplier companies do not have to apply for licenses.

To avoid export controls and sanctions, proliferators lie about the end-use and end-user and hide behind front and shell companies all the time. They never declare that they are buying components for North Korea's nuclear program, Iran's missile program, or Syria's chemical arsenal. For example, they can tell a supplying company they need goods for scientific research or other peaceful purposes. In 2006, an Iranian company ordered sensitive bioresearch equipment from Norway purportedly for a scientific laboratory. On closer look, an attentive Norwegian supplier determined that the equipment Iranians sought was technically superior to what would be necessary for a civilian lab and that it did not fit the physical layout of the laboratory.⁵

Increasingly, shipping companies and vessels are used prominently in sanction evasion. For example, Iran and North Korea falsify documents, reflag vessels, and switch off automatic identification systems to avoid being discovered in the process of illicit transfers of goods.⁶

Supplier companies that provide goods to proliferators can be complicit or not complicit. Larger companies have resources to implement strong internal compliance programs that help them detect any suspicious orders. But some companies, especially smaller ones, do not have resources to invest in compliance and remain negligent. In some cases, supplier companies or individuals within know precisely what they are doing. They do it either because of ideology (to support a sanctioned state) or for profit. In one notorious case, a U.S.-based company MKS Instruments sent pressure transducers to its subsidiary in China after duly applying for a U.S. export license, thinking that the goods would be used in China. The co-opted employee of the MKS Instruments'

⁵ For this case and other known cases of proliferation financing, see Jonathan Brewer, "[Study of Typologies of Financing of WMD Proliferation](#)," Project Alpha, King's College London, October 13, 2017, p 85.

⁶ "[FinCEN Issues Advisory on the Iranian Regime's Illicit and Malign Activities and Attempts to Exploit the Financial System](#)," *Financial Crimes Enforcement Network*, October 11, 2018; [U.N. North Korea Panel of Experts report](#), March 2019, p. 5. The formal name is the Panel of Experts established pursuant to resolution 1874 (2009). For a summary of the report's findings relevant to the financial sector, see Togzhan Kassenova, "[2019 U.N. North Korea Panel of Experts Report: Takeaways for Financial Institutions](#)," *ACAMS Today*, March 27, 2019.

subsidiary ordered transducers from an unsuspecting parent company and pretended they would be used by Chinese companies but planned all along to ship those goods to Iran.⁷ Pressure transducers can be used in uranium enrichment centrifuges, making possible the production of fissile material that can also be used in a nuclear weapon.

Proliferators prefer to buy good quality goods – mostly from the U.S., European, and Asian suppliers. This means that in most cases, they have to pay for those goods through the formal financial system, making financial institutions part of their proliferation schemes.

3. Challenges and Opportunities for Financial Institutions

Proliferators use formal financial institutions for two main purposes: (1) to pay for procurement of WMD-related goods; (2) to fundraise, launder and move money associated with proliferation activity (for example, this can apply to money that ends up paying for the WMD activity or to profit generated as a result of supplying proliferator states).

Challenges

Financial institutions struggle with identifying and stopping transactions related to procurement, fundraising, and movement of money for illicit WMD programs. Below is the list of key challenges:

Lack of information and capacity to identify financial transactions related to procurement

Financial institutions see limited or no information on goods for which payments are made. The information can be incomplete or even misleading. For example, in one case involving the purchase of chemical equipment from the United States that ended up in Syria, the wire description simply said: “laboratory spare parts.”⁸ As discussed above, proliferators often order goods just

⁷ “Chinese Man Convicted on Charges of Exporting U.S.-origin Pressure Transducers to Iran.” *Iran Watch, Wisconsin Project*, February 9, 2016.

⁸ Jonathan Brewer, “Study of Typologies of Financing of WMD Proliferation.” Project Alpha, King’s College London, October 13, 2017, p. 63.

below controlled threshold, which means that there is a movement of goods that do not appear on export control lists but can still contribute to WMD programs. There is a big question mark as to whether information that financial institutions receive (through SWIFT or trade finance documentation) is sufficient to check against lists of controlled goods. Transactions happening under open accounts are especially vulnerable since it is not clear what each individual transaction involves. In general, due to limits in technical expertise, it is unlikely that financial institutions on their own will ever be in a confident and comfortable position to analyze if goods are sensitive.

Lack of information on end-use and end-user

In addition to limited information on the goods involved, financial institutions are constrained by a lack of information on end-use and end-users. Even in trade finance transactions, in which financial institutions receive more information on the parties involved, limitations apply. For example, not all parties can be captured from accompanying documentation, either because their signatures are illegible or because they are not key parties to the transactions.

Limitations of the list-scanning approach to risk management

One of the main tools employed by the financial institutions is scanning against lists of sanctioned and/or suspicious entities and individuals. While indispensable, this method has its limitations. First, such scanning returns a high number of false positives (up to 85%), which means that considerable time and effort is spent on clearing those false alarms. Second, concealment and deceit techniques of sanctioned/designated entities and individuals mean that list-scanning does not catch them. They use front and shell companies and the names of associates or family members. Third, the lists contain names of *known* proliferators and are not useful for preventing new (or newly disguised) proliferators from accessing the financial system.

Beneficial ownership of entities

Another vulnerability lies in the uneven implementation of beneficiary ownership controls internationally. European Union countries require collection of data and transparency when it

comes to who owns companies and trusts. Some other major countries, including the United States, are lagging behind.⁹ In 2018, FinCEN issued a Customer Due Diligence (CDD) Rule, which applies to covered financial institutions and requires them to identify and verify the identity of beneficial owners of legal entities at the time of account opening and defined points after that.¹⁰ While useful, this rule has limited application. The United States is among the countries that do not require the disclosure of beneficial ownership information at the time of company formation. Proliferators make extensive use of shell companies and get away with hiding behind non-transparent corporate structures.

Correspondent banking

One of the main vulnerabilities to U.S. institutions comes from correspondent accounts as a result of weak controls in foreign jurisdictions and insufficient information on customers behind transactions originating in respondent banks. WMD proliferation financing networks exploit correspondent banking to move funds through U.S. correspondent accounts.¹¹

Absence of proliferation financing risk assessment and dedicated proliferation financing component in "Know-Your-Customer" (KYC) and transaction monitoring procedures beyond sanctions compliance

Preventing proliferation financing requires more than compliance with sanctions since sanctions do not address potential proliferators. For that purpose, national and institutional proliferation financing risk assessments, as well as the integration of proliferation financing components into KYC and transaction procedures, are critical. The United States was among the first to conduct a national proliferation financing risk assessment.¹² However, proliferation financing risk assessments at the level of financial institutions are neither a norm nor a requirement. Similarly,

⁹ Nate Sibley, "[Countering Chinese Communist Party Threats with Corporate Transparency](#)," Hudson Institute, 2019; "[The Library Card Project: The Ease of Forming Anonymous Companies in the United States](#)," Financial Integrity Institute, 2019.

¹⁰ See discussion on beneficial requirements in "[National Strategy for Combatting Terrorist and Other Illicit Financing](#)," 2020, pp. 13-15.

¹¹ See discussion on correspondent banking in "[National Strategy for Combatting Terrorist and Other Illicit Financing](#)," 2020, pp. 21-22.

¹² "[National Proliferation Financing Risk Assessment](#)," 2018.

KYC and transaction monitoring procedures at financial institutions normally do not include a proliferation financing component that could help identify specific risks that a particular institution faces.

Vulnerabilities in the cyber and crypto domain

North Korea is a poster child for how vulnerabilities in the cyber and crypto domain can be exploited to generate funds for illicit purposes, including for a WMD program. North Korea's intelligence agency —Reconnaissance General Bureau—leads and coordinates cyberattacks to force the transfer of funds from financial institutions and cryptocurrency exchanges. For example, in 2018, the Reconnaissance General Lab group forced the transfer of \$10 million from Banco de Chile mainly to accounts in Hong Kong.¹³ North Korea targets not only brick-and-mortar financial institutions but cryptocurrency exchanges as well. In 2018, in one attack on a cryptocurrency exchange, North Korean hackers stole close to \$250 million in cryptocurrency.¹⁴ North Korean agents launder cryptocurrency (mined, stolen, and received through ransomware) via a complex web of online transactions.¹⁵

Opportunities

Financial institutions can be critical in the fight against illicit activity related to weapons of mass destruction. Noting limitations in the capacity required to identify proliferation-relevant goods, the financial institutions should focus on a better understanding of customers and patterns in transactions, rather than on trying to understand the technical characteristics of goods. Such an approach will also be helpful in uncovering transactions that are not directly relevant to procurement (i.e., payment for goods) but that can still contribute to proliferation (i.e., fundraising, moving, and laundering funds associated with proliferation activity).

¹³ [U.N. North Korea Panel of Experts report](#), March 2019, p. 51.

¹⁴ ["2 Chinese Nationals Charged in \\$100M Cryptocurrency Scheme,"](#) The Associated Press, *New York Times*, March 2, 2020.

¹⁵ [U.N. North Korea Panel of Experts report](#), August 2019, pp. 26-30.

Incorporating a proliferation financing component into KYC and transaction monitoring procedures can significantly increase the chances of uncovering “red flags.” Below are some recommendations for KYC procedures:

- Including information on the line of business in customer profiles and denoting whether business and/or activities involve dual-use and/or military goods. More detailed information on the type of business and/or activities can be requested from customers as part of service suitability for higher-risk/vulnerable products like trade finance or wires.
- Using data from a broader array of lists in addition to U.S. legally binding lists for scanning. For example, foreign countries, international and nonprofit organizations, and commercial vendors develop lists of parties *suspected* in proliferation for export control compliance purposes.
- Better scrutiny of phone numbers and addresses. It is not uncommon for front and shell companies to share managers, addresses, and phone numbers.

Similarly, there are specific steps that can be integrated into transaction monitoring, including but not limited to:

- Greater automatic scrutiny of transactions involving accounts of the individuals and entities identified as sensitive (these can include individuals that could be associated with sanctioned activities; businesses that trade in dual-use and/or military goods; businesses commonly implicated in proliferation financing-related activities - shipping companies, trading houses, exchange houses, etc.)
- Scanning transactions against a broader array of lists. Incorporating scanning against foreign governments’ proliferation-relevant lists can prove especially useful when providing trade finance services.
- Adopting technical solutions to monitoring trade finance transactions that are more sophisticated and efficient than a manual review of trade documents. This can involve, for example, adopting blockchain-based trade finance platforms or harvesting unstructured data (wire data, transaction memos, suspicious activity reports (SARs), negatives news, etc.).

- Incorporation of tailored geographical factors into transaction monitoring such as specific cities and regions that are known to host agents working on behalf of proliferating states. For example, the U.S. “National Proliferation Financing Risk Assessment (NPFRA)” notes that many front companies working on behalf of North Korea are based in the Dalian, Dangdong, Jinzhou, and Shenyang municipalities in the Liaoning province as well as Hong Kong.¹⁶
- Filing SARs on any transactions that do not make sense, as these might help uncover proliferation networks.
- Inserting a provision in trade finance service contracts to allow an institution to exist a transaction or a relationship without a penalty if the customer does not identify transactions involving sensitive goods or if there are other concerns about a transaction.

4. Similarities and Differences with Money Laundering and Terrorist Financing

Patterns of proliferation financing have both similarities and differences with other types of financial crime, such as money laundering and terrorist financing. Similar to money launderers, proliferators favor formal financial systems because the goods they procure mostly come from legitimate manufacturers. As with money launderers, proliferators rely on shell and front companies to avoid detection. Similar to terrorist financing and unlike money laundering, proliferation financing does not usually involve strikingly large amounts. In another similarity with terrorist financing and unlike money laundering, the money trail is linear – the money is generated to purchase goods.¹⁷ There are two main differences between proliferation financing, on the one hand, and money laundering and terrorist financing. First, transactions related to WMD procurement look like legitimate commercial activity. Second, in addition to individuals, entities, and transactions, there is an emphasis on goods (on which financial institutions do not have expertise).

¹⁶ “[National Proliferation Financing Risk Assessment](#),” 2018, p. 18.

¹⁷ Please see Annex 3, “Comparison of ML with TF, and FoP” in Jonathan Brewer, “[Study of Typologies of Financing of WMD Proliferation](#),” Project Alpha, King’s College London, 2017, p. 35.

It is necessary to employ proliferation-specific tools to minimize proliferation financing due to the above-mentioned differences in typologies, but it is also worth approaching various kinds of illicit financing holistically. We know, for example, that proliferators and agents working on behalf of proliferating states engage in other types of financial crime. The most notorious case is North Korea, which exploits the global financial system to fundraise money from various licit and illicit activities, move and launder funds, and pay for its WMD program.¹⁸ In another example involving an individual, a Chinese middleman Karl Lee for years supplied (and likely continues to supply) Iran with missile-related components. He has used the global financial system not only in support of his procurement and trade efforts but also to launder proceeds from such sales.¹⁹

Even if a financial institution cannot be sure that they are dealing with a proliferation-related case, it is important that they flag/stop a transaction that appears suspicious to them. In some cases, proliferation financing was uncovered by a financial institution because of suspicious indicators related to money laundering.²⁰ Increasing the capacity to deal with one type of financial crime automatically increases the overall capacity to detect other types of illicit financing.

5. The Role of Public-Private Partnerships

Financing of WMD proliferation is a difficult task that no government agency or financial institution is in a position to confront individually. In that sense, public-private partnerships have great potential. It is not general practice for financial institutions to interact with export control, Customs, or border security agencies. Typically, the interaction between financial institutions and law enforcement/intelligence authorities is one-way through either SARs (on which financial institutions do not receive feedback) or in response to legally mandated requests for disclosure of information.

¹⁸ [UN North Korea Panel of Experts report](#), August 2019, p. 4.

¹⁹ “Li Fangwei in Rem Complaint and S1 Indictment,” United States District Court, Southern District of New York, 2014.

²⁰ Jonathan Brewer, “[Study of Typologies of Financing of WMD Proliferation](#),” Project Alpha, King’s College London, October 13, 2017, p. 121, 122.

Creating opportunities for all actors involved in combatting WMD proliferation to share information can help uncover proliferation networks, sanctions evasion, and cases of proliferation financing. For example, export control authorities have technical expertise on dual-use and military goods; they also have information on export license approvals and denials, as well as ‘black-lists’ of violators that can be helpful to financial institutions. Customs and border security agencies have information on the movement of sensitive goods and valuable enforcement data. While financial institutions are constrained when it comes to disclosing proprietary information, timely sharing of observations on trends and patterns of illicit financial movements can prevent proliferation financing from happening, as well as add to our understanding of how proliferation networks operate and finance their activities.

Existing public-private partnerships, such as FinCEN Exchange in the United States, the Joint Money Laundering Intelligence Taskforce (JMLIT) in the United Kingdom, Fintel Alliance in Australia, and others, are a great start. Going forward, it is worth considering how to involve smaller and medium-size banks into such partnerships.

Finally, academic institutions, NGOs, and think-tanks are becoming increasingly indispensable in confronting proliferation financing by contributing to research and capacity-building efforts. They should be recognized as important actors and utilized fully as a valuable resource.



TARGETING TRANSNATIONAL ILLICIT SUPPLY CHAINS

Testimony to the House Subcommittee on National Security, International Development, and Monetary Policy.

Delivered at the 4 March 2020 Hearing entitled, "The Trafficker's Roadmap: How Bad Actors Exploit Financial Systems to Facilitate the Illicit Trade in People, Animals, Drugs, and Weapons."

Spoken Testimony by Gretchen Peters, Executive Director

Center on Illicit Networks and Transnational Organized Crime, Washington DC



Chair Waters, Ranking Member McHenry, distinguished members of the Subcommittee: Thank you for giving me the opportunity to testify.

I am the executive director of the *Center on Illicit Networks and Transnational Organized Crime* and a co-founder of the Alliance to Counter Crime Online.

I have a long history tracking transnational organized crime and terrorism. I was a war reporter in Afghanistan and Pakistan and authored a book about the Taliban and the drug trade. That got me recruited by U.S. military leaders to support our intelligence community. I mapped transnational crime networks for Special Operations Command, the DEA and CENTCOM, and I still provide training to the intelligence community on how illicit actors hide and launder money transnationally.

In 2014 and 2015, I received grants from State Department and Fish and Wildlife Service to map wildlife supply chains, running investigations in South Africa, Kenya, Tanzania, Gabon and Cameroon.

Those projects illuminated two key trends:

One. At the transnational level, wildlife supply chains converge directly with other serious criminal activity, from drugs to human trafficking.

Two. An enormous amount of organized crime has moved online. I'm going to discuss that issue shortly.

Let me start by examining criminal supply chains. Distinguished subcommittee members, I have mapped the supply chains for drug trafficking organizations, wildlife criminals, timber traffickers and terror organizations, among others. Criminal supply chains look the same no matter what illicit commodities they move. Just like commercial firms, illicit organizations operate across a transnational sphere of operations in order to maximize comparative advantage. This also helps them launder and hide profits.

I have submitted a graphic of what we call the Martini Glass Model. It breaks down the criminal supply chain into three sectors:

- The production sector, where raw materials are cultivated or produced,
- The distribution sector, where goods are shipped transnationally, and
- The retail sector, where goods are sold to consumers.

Both ends of the criminal supply chain, the production and retail sectors, are characterized by having many actors who earn low profit margins. These may be the farmers in Colombia or Afghanistan who grow drug crops, or the guys selling dime bags on street corners. These actors are the most visible aspect of the crime, and therefore they are frequent targets of law enforcement. But they are inconsequential to the overall supply chain, and easily replaced.



Controlling the supply chain are those in the stem of the Martini Glass – the distributors, or traffickers. They tend to finance the entire supply chain. They have much higher profit margins and they are much harder to replace when interdicted.



In 2017 I published an article called "The Curse of the Shiny Object," which was submitted as part of my testimony. In it I described how human beings have a strong tendency to fight problems where they are visible. This intuitive and usually well-intended response to visible cues often produces inefficiencies and can result in spreading greater harm. This is the curse of the "shiny object" – when the attention-grabbing aspect of a problem distracts from identifying and countering the core drivers.

The Shiny Object Curse impacts crime policy – think of the billions of dollars the U.S. government spent spraying the drug crops in Colombia and Mexico, or the Broken Windows and Stop and Frisk policies here at home. Congress has also poured millions of dollars into anti-poaching projects across Africa, aiming to stem a conservation crisis that threatens rhinos and elephants with extinction. But poachers, like drug farmers, are inconsequential to the overall wildlife supply chain.

The anti-poaching unit in Kruger National Park has shot or arrested more than 300 poachers, for example, but few middlemen and only a single exporter have been brought to justice in South Africa.

Perhaps the most striking example of the curse is the "Rhinos Without Borders" effort, which is airlifting 100 rhinos from high-poaching areas in South Africa to safer places in neighboring Botswana. The process, which involves darting the



animals with tranquilizers, and then shifting them using a combination of helicopters and cargo planes, is expensive and risky in and of itself. It takes at least three months to move each animal and costs a breathtaking \$45,000 per rhino.

The rhino airlift represents a highly visible response to the most emotional aspect of the crime: the iconic animals being slaughtered. It is hard to imagine a shinier object than a 3-ton pachyderm. But my entire team could operate for a month on the budget needed to move just one animal. And in that month, we could identify the kingpin responsible for financing the poachers, and plan an undercover operation to build a body of evidence against him.

It's more efficient – and you have more impact – by targeting traffickers. If you break the stem of the Martini Glass, you disrupt the supply chain for longer, and you disconnect the actors at either end.

The Martini stem is also where significant convergence occurs. Traffickers move multiple illicit goods. Their skill set is to move shipments through the global transport system. Money launderers clean the illicit profits, and don't care if they come from human trafficking, drugs, nuclear material. It's just money.

In 2016, when supporting DEA's Special Operations Division, I had the opportunity to listen to undercover recordings of a major African trafficking network.

The kingpin bragged about moving drugs, ivory and people. He would say, "we have a route through Mombasa. And we also have a route into Dar es Salaam. We also have a route into Maputo."

The kingpin wasn't talking about roads or runways. He was talking about corrupt pathways.

Distinguished members, we have a law enforcement regime organized around what's in the box being smuggled, when we should be focused on dismantling the systems that allow smuggling to occur. We also must put more focus and funding into fighting corruption, which greases the system.

Lastly, I'd like to address the issue of online crime. Just like commercial commerce and communications, a large portion of illicit activity has shifted online. But the laws governing tech are out of date.

Section 230 of the Communications and Decency Act grants expansive immunity to tech firms for user-generated content, even when its criminal activity.

This quarter century old law, passed at a time when most people connected to the Internet by dial up, did not anticipate a world where tech algorithms drive connectivity – whether it's to help friends share cat videos or drug cartels marketing opioids to folks in recovery.

These algorithms allow trafficking networks to market to far greater numbers of customers, in effect facilitating those in the stem of the Martini Glass to do their job more efficiently.

Tech industry leaders would like you to believe that illicit activity is mainly confined to the dark web.

But study after study show that surface web platforms, including but not limited to Facebook, Twitter, Google and Instagram, have become ground zero for serious organized crime syndicates to connect with buyers, market their illegal goods, and take payments.

We are in the midst of an addiction crisis claiming the lives of more than 60-thousand Americans every year. And it's well known that Chinese traffickers are selling fentanyl-laced opioids through fake pharmacies that advertise through search engines and social media.

A brick and mortar pharmacy would face serious civil liabilities for selling illegal, unregulated medicines.



But Google can host thousands of illegal online pharmacies, facilitating their illicit sales, without such concern. Facebook can carry ads for these pharmacies, and not face liability.

We want to see reforms to CDA 230 to:

- Strip immunities for hosting terror and serious crime content;
- Regulate that firms must monitor their systems for organized crime and report any activity they find to law enforcement; AND
- Appropriate funds to law enforcement to contend with what will be a deluge of data.

Distinguished committee members, I want to request your support to reform CDA 230.

And I have also submitted amendments to both proposed bills, CONFRONT and the Stopping Trafficking Bill, to specify the need for government research into how criminal networks are exploiting cyberspace.

I hope you will consider my amendments as you put both bills forward, and I thank you for focusing on the important issue of fighting transnational crime.

Online Resources:

How wildlife traffickers move goods online: <http://bit.ly/2Sxi5JW>

The Alliance to Counter Crime Online: <http://www.counterincrim.org>

The Center on Illicit Networks and Transnational Crime: <http://www.cintoc.org>

Time to Reform CDA230: <https://www.youtube.com/watch?v=HJuXYGKMHZI>

Articles and reports submitted:

Breaking Criminal Supply Chains: <https://www.cintoc.org/congressional-testimony>

The Curse of the Shiny Object: <https://cco.ndu.edu/News/Article/1311348/the-curse-of-the-shiny-object/>

The Curse of the Shiny Object

How Humans Fight Problems Where They Are Visible, And Why We Need to See Beyond

BY GRETCHEN S. PETERS

Human beings have a strong tendency to fight problems where they are visible. This intuitive and usually well-intended response to visible cues often produces inefficiencies and can result in spreading greater harm. This is the curse of the “shiny object”—when the attention-grabbing aspect of a problem distracts from identifying and countering the core drivers.

The curse impacts many aspects of life. It can cause the U.S. Government (USG) and other organizations to overcommit resources to fight visible symptoms of security problems, while initiatives to counter the structural or systemic drivers of those problems are under-resourced if not entirely ignored. In the worst cases, initiatives to restore order have ended up spreading greater harm by targeting people or entire communities that are victims, not drivers, of the original security problem.

States and law enforcement agencies could have more impact if they focus on fighting the less visible drivers of disorder. While more complex, striking at core drivers of crime will ultimately have greater, longer-lasting impact, and cause less harm.



The purpose of this article is to describe a common and often harmful tendency in the way people approach problems, in particular social disorder. The article will describe the shiny object curse, and offer several examples where the curse has had grievous impacts on U.S. national security interests. I will show how a similar tendency in law enforcement practice—the so-called “broken windows” approach—has been misinterpreted in such a way that its utility has been lost.

The article concludes with reflections on the ramifications of the shiny object curse for national and international security.

Treating the Disease, Not the Symptoms

The curse of the shiny object can be found anywhere. Imagine a patient presents herself to a doctor with skin lesions. If the doctor simply prescribes a topical cream to treat the lesions (the symptom), and fails to identify that the lesions are a result of an autoimmune deficiency disease (the cause), the doctor has fallen prey to the curse. In a far worse scenario, imagine a doctor treats a patient’s crippling headaches with an addictive pain medicine, not diagnosing a malignant growth in the patient’s temporal lobe. In time, the patient ends up addicted to narcotics and suffering from brain cancer. The patient now has more problems than before; harm has increased, and the core problem remains unsolved.

The shiny object curse manifests itself in similar ways in the international security and law enforcement arena. Like the proverbial iceberg, visible only at its tip, society’s most complex threats are far more profound than what we easily observe. Confronting these threats effectively requires a comprehensive response that understands and addresses the profound drivers, not just the visible symptoms. Strategies to restore order must be designed to diminish, not increase harm.

Our Minds at Work

To understand the shiny object curse, we must look at three well-documented aspects of the human psyche. First, human beings have a demand for order in their communities. Multiple assessments have found that visibly maintaining order, sometimes called “disorder policing” or “community policing,” can cause a reduction in crime and an increase in public confidence in the state, while communities allowed to fall into visible disarray can experience a correlated crime increase and decrease in state confidence— more on this complex dynamic later.¹

A second, related issue is that visual stimulation deeply impacts the mind. Recent studies have found that the brain’s visual cortex, once thought to only process incoming information, also plays a powerful role in decision making and shaping values.² What we see around us has a tremendous impact on our perception of order, and how to restore it.

Terrorist groups capitalize on this, spreading fear and disrupting order through dramatic attacks that have profound impacts on national psyches, economies, elections, defense spending, and policy. As recent elections in the United States and Europe have also demonstrated, some constituencies respond positively to candidates who promise visible approaches to impose order, such as building border walls or banning immigrants.

This relates to the third relevant aspect of the human psyche; the fact that humans are not the objective, rational creatures we believe ourselves to be. In fact, our subconscious routinely shapes our decision making process, providing justifications when contradictory evidence conflicts with our existing beliefs or desires.³ The simultaneous presence of contradictory ideas or information is known as “cognitive dissonance.”

The rationalization process allowing individuals to justify foolish or immoral behavior, or to believe wrong information, is called “motivated reasoning.” An example of this is, “I know smoking is bad for me, but it helps keep my weight down.”

In some cases it results in individuals doubling down on bad decisions or finding justification for bad ideas, strategies, and untruths.⁴ If a person has already decided the answer, he or she will not behave rationally, nor look at evidence objectively.

In the security and law enforcement realm, these three psychological forces create a feedback loop, resulting in the shiny object curse:

- Disorder, particularly when highly visible or shocking, produces a demand for order to be restored.
- States respond with interventions designed to restore order, often treating the visible symptoms of disorder rather than its core drivers.
- Highly visible interventions may soothe some constituencies, while distressing others. These interventions
- will often provide political rewards for elected officials, who won’t have to endure the costs.



- In some cases, these interventions will make the problem worse.
- Policymakers and members of the public may realize that the interventions are having limited or even negative impact, but will find reasons to justify and perpetuate them nonetheless, even doubling down on clearly failing strategies.

The Curse at Work in Counternarcotics

The shiny object curse has struck U.S. counternarcotics policy on multiple occasions, in particular with regard to the eradication of narcotics crops in Colombia and Afghanistan. When coca and opium poppy fields blanketed the countryside in both countries, USG policymakers decided that the best way to reduce the flow of illicit narcotics was to destroy the fields.

Despite being dangerous, complex, and costly, eradication has often been the dominant pillar of multi-pronged counternarcotics strategies in both countries, gobbling up the bulk of resources, sucking focus from other potential interventions, and complicating military and diplomatic efforts to stabilize war-torn rural areas.⁵

Eradication is complex because drug cultivation tends to occur in remote, rural areas where the state has limited control and resources, and where ground eradication forces are susceptible to corruption. Also, when eradication may bring political benefits to some elected officials, there will be longer-term costs that outweigh any short-term gains.

Multiple studies have concluded that eradication programs have produced more harm than good, causing environmental degradation, economic upheaval, and a sharp decline in public support, as they sent impoverished rural communities, which often farmed coca and opium out of desperation, into the welcoming arms of insurgents.

Colombia

Previously a transit country that mainly processed and trafficked cocaine, Colombia began increasing its coca output in the 1980s and by 2000 was growing 70 percent of the world's coca, having surpassed Bolivia and Peru to become the world's largest producer.⁶ At its height, Colombia's coca crop covered more than 160,000 hectares, and for decades, eradication through aerial spraying was the dominant response.⁷

From 2004–14, on average 218,000 hectares were sprayed annually.⁸ Multiple studies have concluded that this response did more harm than good. Eradication programs may have convinced people in Bogota and the United States that action was being taken, but they also caused serious negative economic and political consequences in the impacted areas.

The spraying killed all crops, meaning that some poor rural communities were driven into deeper poverty by eradication, whether or not they grew coca. Thus, such villages ended up planting more coca, or sought protection and/or financing from communist rebels, who in turn gained greater influence in the countryside and were themselves drawn into trafficking drugs to finance their insurgency.⁹

Overall eradication failed to dramatically impact the price of cocaine yet, when it did affect price, it merely encouraged farmers in other parts of Colombia to get into coca cultivation, thus ensuring that national output levels remained steady. Other negative consequences were harder to measure.

Glyphosate, known in the United States by its commercial name Roundup, is the active ingredient used in the herbicides sprayed in Colombia.¹⁰ Although authorities have repeatedly claimed that aerial eradication is harmless, scientific analyses have concluded that incessant spraying in bio-diverse regions produced negative long-term effects to fauna, flora, and water sources, and also harmed legal agricultural output and public health.¹¹

From a tactical and financial standpoint, aerial spraying was also a bad investment. Farmers found and implemented various adaptations to protect their crops, which so reduced the impact of the chemicals that 32 hectares of coca needed to be sprayed in order to kill just one-hectare worth of output.¹²

Various analyses concluded that it cost \$240,000 for every kilogram of cocaine ultimately removed from the retail market through spraying, or more than five times the retail value of the cocaine.¹³

In 2006, Colombia shifted gears, radically diminishing emphasis on spraying, putting more resources into interdiction of drug cartels and destruction of drug labs. The number of hectares being sprayed dropped by 40 percent, while the number of cocaine seizures climbed by 60 percent and the number of drug labs destroyed grew by a quarter.¹⁴



This new strategy cut the global supply of cocaine by more than half, causing a spike in retail cocaine prices.¹⁵ Identifying and countering the drug cartels, and interdicting the cocaine supply chain at a level where cocaine had greater value, ultimately had a much greater impact than eradication. This not only impacted the value of the retail cocaine market, but also coca cultivation, which dropped 40 percent.¹⁶

One study found that, for every cocaine lab detected and demolished, coca production decreased by a corresponding three hectares, as demand for coca dropped.¹⁷ On top of that, processed cocaine represents a product of far greater value than coca leaves per kilo. The amount of money lost when a cocaine shipment was captured and destroyed was magnitudes greater than losses incurred when a coca field was destroyed.

Identifying and countering the drug cartels, and interdicting the cocaine supply chain at a level where cocaine had greater value, ultimately had a much greater impact than eradication.

Moreover, it is magnitudes harder for crime syndicates to adapt and replace workers at the trafficking phase of the supply chain than at the farming phase. Alternative livelihood projects in Colombia generally were assessed to be poorly implemented and resourced when compared to Colombia's eradication efforts, yet multiple studies concluded they still had more promise, both in the short and long run, because they addressed the drivers of coca cultivation—poverty, lack of access to markets, and insecurity.¹⁸

One alternative livelihood program that was viewed as successful, if just briefly, was the Plan de Consolidación Integral de la Macarena, which successfully integrated state presence into a coca-growing region through a variety of programs focused on increasing police and judicial presence, while also improving healthcare, education, and economic opportunities.¹⁹ This model improved social and economic indicators in a short period, but was nonetheless canceled by the government.²⁰

Afghanistan

For counternarcotics experts, shifting from Bogota to Kabul was like watching a bad movie all over again. With pink poppy fields carpeting the rural south, the 2001–08 USG drug strategies relied almost entirely on eradication, with comparatively miniscule resources applied to interdiction, public education, and demand reduction. This imbalance predictably produced the same results it had in Colombia; despite billions spent on eradication efforts, poppy output increased steadily from 2002–08. Rampant corruption and poor implementation led the eradication teams to mainly destroy the fields belonging to Afghanistan's poorest farmers, since rich, politically connected growers could escape eradication through bribery.²¹

Compared to the resources poured into eradication, efforts to impact other aspects of the heroin business were under-resourced. Until around 2008, traffickers based in Pakistan and Iran continued to smuggle heroin and import precursor chemicals with little fear of disruption from law enforcement. Hawaladars and other money service businesses could launder drug money with virtual impunity.

In other words, the bulk of efforts to combat the Afghan heroin trade focused on the one, highly visible aspect of the drug supply chain, the point where the drugs were grown. Another key problem with counternarcotics efforts in Afghanistan centered around the reluctance of either Afghan authorities or their U.S. partners to confront prominent individuals, tribes, and constituencies involved in the opium trade out of concern for potential effects on other political outcomes or counterterrorism operations.

Afghan officials argued to USG officials that counternarcotics strategy must be balanced “with the requirement to project central authority” across Afghanistan and should not target prominent tribes whose support was needed.²² This meant that counternarcotics efforts were not applied evenly, and actions that brought short-term political gains for a few elected officials or corrupt eradication teams, spread longer-term harm in rural areas by strengthening the Taliban insurgency, which itself profited from the opium trade.

In communities where the United States or local forces implemented a heavy-handed approach, they suffered heavy casualties and failed to implement order.²³ Eradication at times took a huge toll on communities and eradicators alike, sparking insurgent attacks and community-led rebellions.²⁴ In 2013, for example, 133 members of the eradication forces lost their lives to attacks by insurgents and communities trying to protect their crops.²⁵



Meanwhile in places where alternatives were made available, or where communities were engaged regularly to be part of the process, it was possible to restore order, even in just pocket-sized districts surrounded by violence.²⁶ As with Colombia, the solution in Afghanistan is not a heavy-handed approach. Rather it is a nuanced, holistic approach that generally improves security and confidence that the state—and foreign forces—can together provide order and are on the side of the community.

The Curse in the Conservation Realm

Africa's elephant population has plunged by a staggering 111,000 in the past decade, with multiple countries, including Tanzania and Mozambique, losing more than 50 percent of their herds to poaching. The global rhino population has plummeted by more than a quarter in a poaching surge that has grown 90-fold since 2007.²⁷ Elephant ivory is sought after for jewelry and decorative objects, while rhino horn is prized as a palliative in traditional Chinese medicine. Unless something can be done to halt the current poaching crisis, both animals will become extinct within a decade.

Conservation groups, private foundations, and governments are pouring millions of dollars into fighting this scourge. The focus of most of these efforts, as well intentioned as they may be, is fighting the problem only where visible, and neglecting the less visible drivers of the problem.

Wildlife crime is a transnational organized crime challenge. Animals are being poached or illegally harvested at unsustainable rates and fed into transnational illicit supply chains that deliver end products to consumer markets. This criminal market is visible at either end of the global supply chain: at its beginning where the animals are killed, and at its end, where the products are retailed. It is at those two points where the majority of the interventions are taking place.

Those controlling and financing the wildlife supply chain are less visible—and motivated by the huge profits they can earn from trafficking in wildlife parts. The global market for illicit ivory is valued at \$4 billion per year, while rhino horn now sells for more than gold or cocaine per ounce.²⁸

On the African end of the crisis, many organizations are mounting Herculean efforts to protect the animals, a challenging prospect especially given that pachyderms live across vast, wild spaces, and can cover huge terrain during their daily travels. To keep them safe, parks, reserves, private ranches, and conservancies install costly, high-tech fences and surveillance systems that include hidden cameras, animal collars and even drones.²⁹

Security teams and paramilitary forces patrol parks and conservancies, some of which have become bloody war zones. One rhino in Kenya even has his own 24-hour bodyguard unit.³⁰ In interviews with people in the field, they acknowledge they are fighting a losing battle, but many continue to double down instead of modifying their strategy. This is the curse of the shiny object, distracting attention from the drivers, and focusing it on the visible.

The anti-poaching unit in Kruger National Park has shot more than 300 poachers, for example, but few middlemen and only a single exporter have been brought to justice in South Africa.³¹ Perhaps the most striking example of the curse is the "Rhinos Without Borders" effort, which is airlifting 100 rhinos from highpoaching areas in South Africa to safer ones in neighboring Botswana.³² The process, which involves darting the animals with tranquilizers, and then shifting them using a combination of helicopters and cargo planes, is expensive and risky in and of itself. It takes at least three months to move each animal and costs a breathtaking \$45,000 per rhino.³³

Projects like the rhino airlift are understandable in a region where corruption is rampant and political will to counter organized crime is low. The airlift also represents a highly visible response to the most emotional aspect of the crime: the iconic animals being slaughtered. It is hard to imagine a shinier object than a 3-ton pachyderm. It is noteworthy that, across Africa, there are far fewer efforts, all of them poorly resourced compared to anti-poaching and animal protection efforts, aiming to identify and interdict the traffickers moving ivory and rhino horn to Asia, or to counter the corrupt state actors who protect these illicit markets.

This is significant for three reasons.

- First, most poachers cannot afford to hunt without receiving financing from criminal bosses; most cannot even afford to buy the bullets they fire, which sell for more than \$20 per round.³⁴ Therefore, interdicting the criminal bosses will have a cascading effect down the supply chain, causing poachers to lose this critical financing.



- Second, when interdiction strategies focus on the trafficking stages where the greatest increase in value occurs, criminal profits decline far further than when policies are aimed at the early stages of procurement.
- Third, it is harder for crime syndicates to adapt and replace goods and people when they are lost to seizure or arrest at the trafficking phase.

It is critical to understand these aspects of the supply chain in order to design a strategy that has the most disruptive impact. In many parts of Africa, the local kingpins are more or less known; however, those fighting the problem struggle to build a solid body of evidence and put forward successful cases in often corrupt court systems.

As in other crime sectors, there appears to be a limited number of syndicates moving the vast majority of endangered wildlife parts transnationally. A few targeted operations mounted alongside the existing physical efforts to protect the herds could have a profoundly disruptive impact in a relatively short period of time, buying more time for the animals at risk of extinction.

Lastly, there is the corruption problem, another invisible driver. Few groups across Africa have mounted anticorruption campaigns to support anti-poaching efforts. A handful of community-based projects have found success in protecting animal herds when coupling tactical protection efforts with projects focused on simultaneously interdicting poaching syndicates, while also collaborating with and protecting local communities, improving economic opportunities, and reducing graft at the local level.³⁵

Zakouma National Park in Chad, which lost 90 percent of its elephants from 2002–10, today has a healthy and growing elephant population and also a stable environment for local communities.³⁶

The nongovernmental organization Africa Parks was brought in to manage Zakouma in 2011, weeding out corruption among rangers in the Rhode Island-sized sanctuary, improving capacity, equipment, and discipline, and improving lives for local villages by building schools and health clinics.³⁷

There is also cautious optimism about Garamba National Park in the Democratic Republic of Congo where park managers are working to professionalize the rangers, fight corruption, and provide protection and jobs for communities in and around the park. Community buy-in and popular support are present in nearly all projects in Africa that have succeeded in reducing poaching.³⁸

Poaching decreases in places where local communities have ownership or partial ownership of reserves or a share of the revenue from reserves, as well as jobs.³⁹ Implementing these strategies may be more complex, but they are ultimately no more expensive than installing hi-tech surveillance systems or airlifting multi-ton animals to safer places. Moreover, they produce multiple positive outcomes for local communities, including greater general stability and increased confidence in the state.

Broken Windows Policing

In 1982, prominent criminologists George L. Kelling and James Q. Wilson published a paper in *The Atlantic* arguing that, “at the community level, disorder and crime are usually inextricably linked, in a kind of developmental sequence.”⁴⁰

Their broken windows theory was based on a 1969 experiment, which parked a car without plates and its hood open in a run-down part of the Bronx. The vehicle was vandalized within 10 minutes of being parked, at first by affluent-looking white people, and virtually destroyed within 24 hours of being parked.

Meanwhile, another car parked in affluent Palo Alto sat for a week untouched, until the researchers returned and smashed a window with a sledgehammer, after which, it was destroyed within a few hours, again by predominantly white people.⁴¹

In both neighborhoods, visible indicators that order was not being maintained appeared to lead to further vandalism and crime. The authors of the article explicitly argued that race played no intrinsic role in maintaining order, citing the case study of a white police officer whom they tracked as he patrolled a mostly black neighborhood in Newark, where he collaborated with community members to both define and maintain order.

Rules of the street, the authors argued “were defined and enforced in collaborations with the ‘regulars’ ...another street might have different rules, but these, everybody understood, were the rules for this neighborhood. If someone violated them, the regulars not only turned to [the officer] for help but also ridiculed the violator.”⁴²



Community members and the security enforcer alike agreed on the rules and collaborated to enforce them. Enforcement was not arbitrary, but impacted rule-breakers who engaged in begging, petty theft or loitering, or who were visibly inebriated or harassing others. When these basic rules were enforced, the level of more serious crime also went down. Even though the Newark neighborhood was poor, it was secure, and people enjoyed a sense of community.⁴³

The idea that Kelling and Wilson wanted to impart was that, if police focused on countering disorder and less serious crime in communities, they could reduce public fear, increase confidence in the police, and deter more serious crime.⁴⁴

When police operated in collaboration with the community, residents themselves helped take control of their neighborhoods and also prevented more serious crime from infiltrating.⁴⁵

Unfortunately, this deceptively simple broken windows narrative was often misinterpreted. In 1993, Rudy Giuliani was elected mayor of New York City on a campaign promise to reduce soaring crime and clean up the streets. Giuliani embraced the broken windows theory, and implemented a program in which disorder was aggressively policed and all violators were ticketed or arrested.

The New York City Police Department cracked down on misdemeanors, arresting people for smoking marijuana in public, spraying graffiti, and selling loose cigarettes.⁴⁶ Police also focused on cleaning up the New York City subway system, which at the time suffered 250,000 turnstile jumpers every day.⁴⁷ Their aggressive response seemed to work. Almost instantly, crime began falling, and the murder rate plummeted. Giuliani called the strategy miraculous, and was reelected in 1997.

However the Giuliani approach—many criminologists now refer to this as “zero tolerance” or “stop and frisk” policing—has come under fire. First, criminologists began to note that crime had dropped at corresponding rates around the United States, including in other big cities that did not implement New York’s approach.⁴⁸ Some began to question whether Giuliani’s approach had anything to do with New York’s crime decrease.

Moreover, minority communities and civil rights groups hit back against “zero tolerance,” saying such policies caused police to disproportionately target minorities, thus increasing disorder and mistrust amid rising complaints of police misconduct.⁴⁹ More recent high-profile killings of African Americans by white police, such as Michael Brown, who was stopped for jaywalking in Missouri, and Eric Garner, who was confronted for selling loose cigarettes in New York, were said to be examples of broken windows policing run amok.

George Kelling, one of the authors of the original broken windows article himself hit back against the way his theory had been applied, writing in 2015 that, “broken windows was never intended to be a high-arrest program,” and had been grossly misinterpreted.⁵⁰

Other academic analyses have come to the same conclusion. One 2015 study published in the *Journal of Research in Crime and Delinquency* found that “disorder policing strategies generate noteworthy crime control gains,” but that “the types of strategies” implemented can matter greatly.⁵¹

Comparing 30 different instances of disorder policing, the study concluded that aggressive order maintenance strategies focused on making high numbers of arrests do not generate significant crime reductions.⁵² In contrast, it found that “community problem solving approaches” seeking to change “social and physical disorder conditions” can produce significant crime reductions.⁵³

It found examples of successful strategies that yielded consistent crime reduction effects across a variety of violent, property, drug, and disorder outcome measures.⁵⁴ These findings support the idea that police and other security forces should pay attention to visible signs of disorder when seeking to reduce more serious crimes in neighborhoods. The key to success is that they focus on a community cooperation model over a zero-tolerance or stop and frisk model.⁵⁵

The 2015 study concluded that, “in devising and implementing appropriate strategies to deal with a full range of disorder problems, police must rely on citizens, city agencies, and others in numerous ways.”⁵⁶ Moreover, a sole commitment to increasing misdemeanor arrests is likely to undermine relationships in low income, urban communities of color, where distrust between the state and citizens is most profound.⁵⁷

As Kelling put it in his 2015 article, levels of crime and demand for order remain high in minority and poor communities in the United States, but zero-tolerance approaches have exacerbated the problem.⁵⁸ The final lesson was that disorder problems, and the responses to them, are highly contextualized to local conditions.



Since each community and its problem are unique, so should be strategies to counter them.⁵⁹ Furthermore, it is important to make a distinction between imposing order on the general public, and targeting highly violent syndicates, repeat offenders or gangs. An aggressive program focused on the disorderly behaviors of violent gang members, for example, could include focused deterrence tactics more rigorous than those used in a program to control the more general disorderly conduct of ordinary citizens.

Conclusion

The purpose of this article is to help communities, states, and organizations comprehend and address why they fall into the very understandable psychological trap of the shiny object curse. The most important takeaway should be that identifying root drivers of problems and engaging—not isolating—communities impacted by these threats must be the first order of business.

Community members hold the keys to success, and in every occasion encountered here, they have felt as desperate for peace and security as the rest of us. Trust between the community and the state depends on whether policymakers fall victim to the curse.

The Drivers of Disorder are Typically More Profound than What is Immediately Visible

Therefore, it is imperative that security forces and policymakers alike conduct thorough information gathering and analysis to understand how illicit networks operate, obtain financing, and solicit protection. Just as each community is unique, so must be interventions. Unless a fairly complete analysis is conducted prior to shaping and implementing policy, that policy may cause greater harm than it alleviates.

It Will be Necessary to Engage Communities to Help Fight Disorder

Community members often hold a great deal of intelligence about the drivers of disorder, and are able to identify ringleaders. Moreover, they have an interest in improving levels of order in the place they live, and are vital partners in restoring and maintaining order.

This idea can have relevance for policymakers trying to protect communities domestically, or trying to implement peacebuilding strategies or stability operations abroad.

Elected Officials May Perceive Benefits from Implementing Highly-Visible Interventions that Ultimately Have Negligible or even Negative Impact on Affected Communities

These visible interventions may bring those politicians short-term political gain, or give the appearance that the elected officials are taking action, when in fact the elected officials are avoiding doing what actually needs to be done. Advocating for elected officials to take a tough stand against illicit activity is a complex arena for security forces, but security forces may find useful allies in the community if they already have mutual trust and a solid working relationship.

PRISM

Notes

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- ³⁹ Masha Kalina, "A Tale of Two Countries: Zimbabwe and Botswana, Neighbors with Opposing Attitudes toward Wildlife," National Geographic, November 8, 2016, available at <<http://voices.nationalgeographic.com/2016/11/08/a-tale-of-two-countries-zimbabwe-and-botswana-neighbors-with-opposing-attitudes-toward-wildlife/>>; Claudia Sobrevila, "5 Things You May Not Know About Human-Wildlife Conflict in Botswana," The World Bank, March 3, 2016, available at <<http://www.worldbank.org/en/news/feature/2016/03/03/5-things-you-may-not-have-known-about-human-wildlife-conflict-in-botswana>>.
- ⁴⁰ George Kelling, James Wilson, "Broken Windows: The Police and Neighborhood Safety," The Atlantic, March 1982, available at <<https://www.theatlantic.com/magazine/archive/1982/03/broken-windows/304465/>>.
- ⁴¹ Ibid.
- ⁴² Ibid.
- ⁴³ Ibid.
- ⁴⁴ Ibid.
- ⁴⁵ "Broken Windows Policing," Center for Evidence-Based Crime Policy, 2013, available at <<http://cebcp.org/evidence-based-policing/what-works-in-policing/research-evidence-review/broken-windows-policing/>>.
- ⁴⁶ Rense Klahr, Maggie Penman, Tara Boyle, Jennifer Schmidt, and Shankar Vedantam, "How A Theory Of Crime And Policing Was Born, And Went Terribly Wrong," National Public Radio, November 1, 2016, available at <<http://www.npr.org/2016/11/01/500104506/broken-windows-policing-and-the-origins-of-stop-and-frisk-and-how-it-went-wrong>>.
- ⁴⁷ Ibid.
- ⁴⁸ Ibid.
- ⁴⁹ Conor Friedersdorf, "Applying 'Broken Windows' to the Police," The Atlantic, December 8, 2014, available at <<https://www.theatlantic.com/national/archive/2014/12/applying-broken-windows-to-the-police/383490/>>.
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- ⁵¹ Anthony Braga, Brandon Welsh, Cory Schnell, "Can Policing Disorder Reduce Crime? A Systematic Review and Meta-analysis" Journal of Research in Crime and Delinquency 52, no. 4 (2015), 567-88.
- ⁵² Ibid.
- ⁵³ Ibid.
- ⁵⁴ Ibid.
- ⁵⁵ Ibid.
- ⁵⁶ Ibid.
- ⁵⁷ Ibid.
- ⁵⁸ George Kelling, "Don't Blame My 'Broken Windows' Theory for Poor Policing."
- ⁵⁹ Anthony Braga, "Can Policing Disorder Reduce Crime?".



In fact, the current cartel leader, Joaquín "El Chapo" Guzmán, has been repeatedly ranked by Forbes magazine as one of the most powerful and wealthy people in the world. After his most recent prison in 1993, he escaped from a high-security Mexican prison hiding in a laundry cart, having reportedly spent more than U.S. \$2.5 million to buy off prison guards.

Evading networks

Neither terrorism nor narcotics trafficking is a new phenomenon in recent years; however, contemporary illicit networks have globalized just like legal organizations and businesses. Moreover, links between criminal groups, insurgents and terrorist organizations are deepening. This increasingly mutualized underworld poses a significant threat to global stability and a major challenge for investigators to unravel.

Whether they are made up of drug traffickers, terrorists or some combination of illicit actors, powerful underworld networks that have survived generations do so precisely because they are highly adaptive and resistant to attacks by military and law enforcement. Traditional tactics to go after organizational leaders have often backfired. In response to these attacks, such networks grow and have only increased their operational security and been forced to become more robust.

In other words, conventional law enforcement and military tactics often have the unforeseen and undesired effect of making these enemies tougher to beat. In many cases, such as the Redburn Taliban and the Sinolas Cartel, the new leader who replaces an individual who has been killed or captured is smarter about avoiding capture than his predecessor and more ruthless in his efforts to do so. On top of that, being led by a network leader doesn't mean the network's business grinds to a halt. Imagine if

someone fired a drone strike into Japan and killed the chief executive officer of Toyota, for example. The firm would be able to continue to produce cars and would likely appoint a new leader who would have limited authority.

Consider, on the other hand, the impact of an earthquake in 2008 on the Auto Sola plant in Kamay, Japan. The tremor knocked a tree that crushed 200 precision tools used in the manufacture of sophisticated valves for automotive brakes. All Toyota models required the critical valves, which were exclusively produced at the factory. The loss of the large plant forced the entire company to shut production for more than four months, creating a significant operational disruption.

Business lock-down

Conventional law enforcement and military tactics often focus on a target network as a military or gang-based organization, failing to recognize that most illicit organizations operate just like transnational businesses, concerned with costs, return and revenue, just as major firms such as Toyota function.

The Sinolas Cartel functions just like a transnational firm, with operations in more than 40 countries. Its reach is believed to extend across the Pacific to Australia and Japan and across the Atlantic to Latin America, Italy, Portugal, Spain, Germany and several African nations," explains U.S. Attorney for the Southern District of California, Louis L. Duffy.

This trend is apparent among major illicit networks around the globe. Powerful crime syndicates, such as Japan's Yakuza or South Asia's Q-Company, operate like large diversified conglomerates. They have their fingers in scores of businesses from drug smuggling to regional film, money laundering networks to construction firms and real estate. Major terrorist organizations

from Hezbollah to al Qaeda have been tied to vast criminal operations, ranging from drug smuggling to asset sales (see sidebar this page).

Leaders and U.S. officials around the world recognize that the "organization" of crime is a global challenge and one that will require a fresh way of looking at the problem.

"Our understanding of the problem has to improve," says Gary Lewis, the Southeast Asia regional director of the United Nations Office on Drugs and Crime. "Policy must be based on solid evidence. We cannot keep groping around in the dark... The real challenge is to know what we don't know."

A U.S. strategy to defeat transnational threats, which was released in July 2013, calls for attacking terrorist and criminal organizations by "targeting their infrastructures, disrupting them of their enabling means and preventing the criminal facilitation of terrorist activities."

So what does this mean? And how can law enforcement and military operations worldwide get on board with strategies that increasingly use private-sector models to attack complex threats? Using business methodology to analyze illicit networks can help investigators identify key administrators in these targeted networks that may not be initially apparent.

Understanding the similarities between how illicit organizations enable security professionals to illuminate critical vulnerabilities in illicit networks. Both legal and illegal operations:

- Are founded on trusted relationships.
- Make efforts to conceal transactional supply chains to generate revenue.
- Manage funds to optimize risk and return.

A 2010 project for the U.S. Drug Enforcement Administration mapping out the cocaine supply chain from Colombia to the United States revealed just how closely the illicit cocaine supply chain mirrored the movement of legal agricultural crops being grown in South America and exported to the United States. The main differences analysts found in their supply chains were that cocaine transporters masked many of their critical nodes in order to hide from law enforcement.

Supply chain methodology can reveal these hidden activities by documenting the roles and functions performed by individuals to keep supply chains operational. By focusing on which roles and functions are critical to the business, one starts to understand which nodes need to be removed (such as the Toyota brake valve) to disrupt the network and interfere with operations.

Just like legitimate businesses, illicit networks operate internationally. There are identifiable "critical" networks that enable the "business side" of the transport operation to function. For example, in the cocaine supply chain, one of the critical, high-vulnerability nodes is the role of "cocaine brokers" — the individual who manages the sale of large-scale drug shipments between South America and Mexico. Investigation and social network analysis discovered that there were five cocaine brokers, and law enforcement coordinators who could move the shipments. When one cocaine broker was arrested and removed from the chain, 100 metric tons of cocaine quickly piled up, unable to move along the supply chain.

SHASTING EXCLUSIVE FORCE

The Dutch public safety database has been known as a potent national grid and fighting force that involves national resources, and support from law and dark, resources in the past several years, an international force of investigators has joined together to find the organization who do drug a multi-billion-dollar, globalized criminal empire engaged in unrelenting operations and growth, surveillance, intelligence and law-enforcement networks.

According to a document by the U.S. Department of Justice in December 2013, for example, the Dutch law-enforcement database is a key to the purchase of vehicles in America to help, more however, the Netherlands, the United States, Canada and Australia, making it possible to track U.S. \$400 million in cash.

Methods which have been reported to increase attacks dating back to 1982, was designed to monitor operations by the U.S. and other Western governments in 1995. The goal was to use the ground-level data and trace back, including get around the networks.

By moving into the central underworld, being from computers to help "shastings" using cyber banks, Hezbollah, transferred into the United States, and the money was used to purchase and use. The approximately 100 capabilities included in the main had "this is the purpose or source of that use and related activity on the case case investigation."

The use case was then shipped to other critical nodes, where they were used. The proceeds from these sales, according to the documents, were then smuggled by a series of vehicles, making operations called "shastings" (shastings) network conducted the case through China and Togo to Liberia, where it was then used by Hezbollah to fund itself.

Investigators were able to create a trace by following the supply chain of vehicles and the movement of money. This trace was used to develop a money-laundering case because the used car operations in and of itself was being a money-laundering business could allow for harmful activities past other uses. They recognized that only a criminal organization could provide the means for these vehicles were being used to transfer. With funds and other critical nodes.



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Statement of

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on

**“Global Illicit Networks and their Facilitators in the Americas:
Countering the Threat from Mexican Cartels and the Opioid Epidemic”**

at a Hearing on

“The Traffickers’ Roadmap: How Bad Actors Exploit Financial Systems to Facilitate the
Illicit Trade in People, Animals, Drugs, and Weapons”

before the

Subcommittee on National Security, International Development and Monetary Policy,
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on

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¹ The views expressed in this testimony are that of the author and do not necessarily reflect the views of the William J. Perry Center for Hemispheric Defense Studies, National Defense University, or the Department of Defense. Testimony is drawn from the author’s recent publication, “Countering the Evolving Drug Trade in the Americas,” The Woodrow Wilson Center, January 2020, https://www.wilsoncenter.org/sites/default/files/countering_the_evolutionary_drug_trade_in_the_americas.pdf

Thank you Chairman Cleaver, Ranking Member Hill, and members of the House Financial Services Subcommittee on National Security, International Development and Monetary Policy for the opportunity to appear before you today to testify on the threats posed by global illicit networks to U.S. national security. Illicit networks are comprised of terrorists, insurgents, criminals, rogue states, and their facilitators; they are engaged in diversified illegal activities that include drug, human, arms, gold and wildlife trafficking, kidnapping, extortion, theft, and money laundering. These nefarious networks share operating areas in the land, air, maritime and cyber domains, tactics, techniques, and procedures, and financial facilitators around the world. While the crimes illicit networks commit are not new, globalization has supercharged criminality in terms of geographic reach, magnitude, velocity, income and the violence that accompany it. In some parts of the world, global illicit networks are outgunning, corrupting, or even displacing government security forces responsible for countering them.

While these actors are global in nature, I will focus on threats closer to home. From drug overdose deaths in the U.S. and record cocaine production in Colombia to the unprecedented political and humanitarian crisis in Venezuela, global illicit networks are threatening the prosperity and security of the Western Hemisphere. External actors like Cuba, Russia, Iran, Turkey, and Colombian armed groups and the illegal oil, gold, and narcotics trade are propping up Nicolas Maduro's authoritarian regime in Venezuela that had led to some five million Venezuelans fleeing the country. Meanwhile, Mexican transnational criminal organizations are fueling the opioid epidemic in the U.S. and exacerbating the migration crisis on our southern border that impact the public health, economy, and national security of the United States. I will specifically examine how Mexican cartels, their wealth and power, and the evolving drug trade on the Darknet threaten our country, and I will review our efforts to counter them.

The Threat from Mexican Transnational Criminal Organizations

Mexican transnational criminal organizations (TCOs) have become the most infamous and formidable illicit traffickers in the world with tentacles as far-reaching as Europe and Asia. They operate like multinational corporations, assessing market supply

and demand for goods and services, securing supply chains by land, air, and sea well beyond their borders, and financing their operations and recycling their profits. The cartels are engaged in all types of trafficking, including drugs, migrants, guns, gasoline, and avocados; they are highly adaptive and quickly respond to countermeasures undertaken by U.S. and Mexican security forces. Just as they diversify their criminal activities, the cartels launder their proceeds through banks, money services businesses, bulk cash smuggling, trade-based money laundering, front companies, store of value vehicles and in cyberspace. The cartels thrive due a culture of corruption and impunity and weak government institutions responsible for confronting them in Mexico. These extremely well-armed groups use violence and the threat of violence to empower and enrich themselves, resulting in a record 35,588 homicides in Mexico in 2019.²

For decades, Mexican TCOs have taken advantage of Mexico's proximity to the U.S. as a destination country for migrants and for illegal drugs, traditionally marijuana and cocaine and now heroin and synthetics. The Drug Enforcement Administration considers Mexican TCOs the greatest criminal drug threat to the United States. They have dominated the drug trade and confronted the Mexican municipal, state, and the federal government for decades and are engaged in a new opium war. Mexican TCOs continue to control lucrative smuggling corridors, primarily across the southwest border, and maintain the greatest drug trafficking influence in the United States, with continued signs of growth. They expand their criminal influence by engaging in business alliances with other TCOs, including independent TCOs, and work in conjunction with transnational gangs, U.S.-based street gangs, prison gangs, and Asian money laundering organizations.³

Mexican cartels have evolved over the past 15 years. In 2006, there were four dominant Mexican drug trafficking organizations: the Tijuana/Arellano Felix organization (AFO), the Sinaloa cartel, the Juárez/Vicente Carrillo Fuentes organization (CFO), and the Gulf cartel. Aggressive government operations to decapitate cartel

² Mary Beth Sheridan, "Homicides in Mexico Hit Record Highs in 2019," *The Washington Post*, January 21, 2020, https://www.washingtonpost.com/world/the_americas/homicides-in-mexico-hit-record-highs-in-2019/2020/01/21/a9c5276a-3c5e-11ea-afe2-090eb37b60b1_story.html

³ DEA 2018 National Drug Threat Assessment (NDTA), <https://www.dea.gov/sites/default/files/2018-11/DIR-032-18%202018%20NDTA%20%5Bfinal%5D%20low%20resolution11-20.pdf>

leadership resulted in significant instability, continued violence and a fracturing of the large cartels into seven significant trafficking organizations: Sinaloa, Los Zetas, Tijuana/AFO, Juárez/CFO, Beltrán Leyva, Gulf, and La Familia Michoacana. In more recent years, it appears there is even more fragmentation into as many as 20 major organizations. A new transnational criminal organization, Cartel Jalisco-New Generation, which split from Sinaloa in 2010, has sought to become dominant with brutally violent techniques and is the most threatening.⁴ Despite the a high-prolife extradition and U.S. trial of its leader “El Chapo” Guzman, the Sinaloa Cartel remains formidable and has gone global. It reportedly distributes drugs to over 50 countries as far as Australia and engages with Russian arms dealers and Chinese money launderers to support its operations.

Mexican TCOs capitalize on America’s voracious appetite for illegal drugs such as cocaine, heroin, fentanyl, cocaine, and methamphetamines. According to the Center for Disease Control and Prevention (CDC), an average of 130 Americans died daily due to opioid overdoses in 2018. The national opioid epidemic fueled by heroin and fentanyl from Mexico is significantly impacting the public health, economy, social welfare and national security of the United States. Drug demand changes are impacting the U.S. and Mexican security in different but equally concerning ways. As cocaine production in Colombia reaches its highest levels in history but consumption in the U.S. falls, cocaine traffickers are seeking new markets as far away as Asia and Europe. Meanwhile, heroin use in the U.S. has spread across suburban and rural communities and socioeconomic classes with over 90% of heroin in the U.S. originating from Mexico. Potent synthetic opioids like fentanyl have become more prevalent and popular in the U.S. that has a resulted in the tragic opioid crisis. Mexican cartels through their control of the supply routes are dominating heroin, fentanyl and methamphetamine trafficking into the U.S. and becoming increasingly powerful.

The Fentanyl-Fueled Opioid Epidemic in the U.S.

⁴ June S. Beittel, Mexico: Organized Crime and Drug Trafficking Organizations, Congressional Research Service, July 3, 2018, <https://fas.org/sgp/crs/row/R41576.pdf>

Fentanyl is a potent synthetic opioid that produces effects such as relaxation, euphoria, and pain relief similar to morphine, oxycodone, methadone, and heroin but is some 50 times more potent. It can be used legally with a prescription, but illicit fentanyl is smuggled into the United States primarily in powder or counterfeit pill form that can be deadly in very small doses of as little as 0.25 milligrams.⁵ China is the principal source country of illicit fentanyl and fentanyl-related compounds in the U.S., according to U.S. Customs and Border Protection. Fentanyl analogs and precursor chemicals used to make fentanyl are illicitly manufactured in Chinese labs and then sold on the Darknet and shipped in bulk to the U.S. and Mexico. Similarly, non-pharmaceutical fentanyl is increasingly being manufactured in Mexico and transported into the United States via well-established drug trafficking routes across the southwest border.

Fentanyl trafficking into the United States generally follows one of two pathways:

1. direct purchase of fentanyl from China by U.S. individuals for personal consumption or domestic distribution and
2. cross-border trafficking of fentanyl from Mexico by transnational criminal organizations and smaller criminal networks.

How does the illicit fentanyl trade work? Orders and purchases from China are brokered over the internet. The predominant funding mechanisms associated with fentanyl trafficking patterns include:

1. purchases from a foreign source of supply made using money services businesses (MSBs), bank transfers, or online payment processors;
2. purchases from a foreign source of supply made using convertible virtual currency (CVC) such as bitcoin, bitcoin cash, ethereum, or monero;
3. purchases from a U.S. source of supply made using an MSB, online payment processor, CVC, or person-to-person sales; and

⁵ American Addictions Center, "Fentanyl vs. Heroin: The Similarities and Differences Between Two Powerful Opioids," September 2019, <https://americanaddictioncenters.org/fentanyl-treatment/similarities>

4. other, more general money laundering mechanisms like bulk cash smuggling associated with procurement and distribution.⁶

China has been accused of fueling the opioid crisis by exporting fentanyl and exploiting the U.S. Postal Service and international express mail carriers to ship fentanyl directly into the United States. According to a federal investigation, Chinese fentanyl dealers warned their U.S.-based customers via email that private delivery companies like FedEx electronically tracked packages, that would allow the easy identification of mail from suspect addresses and create a trail connecting sellers and buyers of illegal fentanyl, and they advised American fentanyl buyers they would send shipments by regular mail through the U.S. Postal Service to avoid detection.⁷

The U.S. Postal Service (USPS) has stepped up tracking, detection and interdiction efforts to curb the fentanyl trafficking into the U.S. through the mail. Congress has ordered the agency get advanced electronic data on 100% of inbound shipments by December 2020, with an urgent emphasis on parcels coming from China. By requiring data on the sender, recipient and the contents of an international parcel and incorporating new technology to scan packages, the postal service witnessed a 1,000% increase in the number of parcels seized containing synthetic opioids between 2016 and 2018. USPS saw the number of opioid parcel seizures increase by 750% domestically in the same timeframe.⁸ Enhanced surveillance of the postal service has resulted in increased cross-border fentanyl trafficking from Mexico by the Mexican TCOs.

The Drug Trade Further Empowered by the Darknet

⁶ FinCEN Advisory to Financial Institutions on Illicit Financial Schemes and Methods Related to the Trafficking of Fentanyl and Other Synthetic Opioids, August 21, 2019, <https://www.fincen.gov/sites/default/files/advisory/2019-08-21/Fentanyl%20Advisory%20FINAL%20508.pdf>

⁷ Sari Horwitz and Scott Higham, "The flow of fentanyl: In the mail, over the border," *The Washington Post*, AUGUST 23, 2019, <https://www.washingtonpost.com/investigations/2019/08/23/fentanyl-flowed-through-us-postal-service-vehicles-crossing-southern-border/?arc404=true>

⁸ Leandra Bernstein, Most fentanyl is now trafficked across US-Mexico border, not from China," WJLA News, July 16, 2019, <https://wjla.com/news/nation-world/most-fentanyl-is-now-trafficked-across-us-mexico-border-not-from-china>

Narcotics trafficking continues to be the most lucrative illicit activity in the world, but it is adapting and now capitalizing on cyberspace. The marketplace for narcotics like heroin, fentanyl, and methamphetamine has been supercharged by technology and the Internet, particularly by the Darknet. The deep web is the entire web that is not accessible by conventional search engines. Within the deep web, the Darknet is a network of websites with their IP address details intentionally hidden, often linked to criminal activity and illegal markets including drug trafficking. Narcotics transactions via the Darknet provide anonymity, choice, efficiency, ease of payment with cryptocurrencies like Bitcoin, and the convenience of having the narcotics delivered by mail to consumers.⁹ This online evolution is disrupting the traditional marketing and distribution aspects of narcotics trafficking.

Illicit online drug sales have grown in volume and complexity since the days of Silk Road, the original Darknet market that came online in 2011 and was taken down in 2013 by the FBI. The dealers who had been selling the drugs on that market migrated to competing sites set up with a similar infrastructure, using the Tor web browser, which hides the location of the websites and their viewers, and Bitcoin, which allows for essentially anonymous payments. In 2017, when the police took down two of the biggest successors to Silk Road, AlphaBay and Hansa market, there was five times as much traffic happening on the Darknet as the Silk Road had at its peak, according to Chainalysis, a firm that analyzes Bitcoin traffic.

On Empire, one of the largest markets still online, people could choose from more than 26,000 drug and chemical listings, including over 2,000 opioids, shipped right to their mailbox. In June 2019, customers could still purchase five grams of heroin — “first hand quality no mix” — for 0.021 Bitcoin (roughly \$170), or a tenth of a gram of crack cocaine for 0.0017 Bitcoin (roughly \$14) on the dark market known as Berlusconi. Darknet markets are one of the vital sources of fentanyl and other synthetic opioids produced in and sent from China. Despite enforcement actions over the last six years that led to the shutdown of about half a dozen sites, including the takedowns of Wall Street

⁹ Olga Khazan, “The Surprising Ease of Buying Fentanyl Online: To get extremely potent opioids, users turn to the dark web—and sometimes, Google,” *The Atlantic*, January 2018, <https://www.theatlantic.com/health/archive/2018/01/the-surprising-ease-of-buying-fentanyl-online/551915/>

Market and Valhalla, there are still close to 30 illegal online markets, according to DarknetLive, a news and information site for the Darknet. The desire to order drugs from the comfort of home and to maximize income from drug sales appears for many to be stronger than the fear of getting arrested.¹⁰

The U.S. and Mexico need to better understand this shift in narcotics demand and the corresponding modifications in the production, marketing, distribution and consumption aspects of drug trafficking. As narcotic offerings diversify and the Internet plays a more critical role in drug trafficking, these changes are affecting public health and security in the U.S. and Mexico. Both governments must strive to design timely responses to reduce demand, increase treatment, and improve supply reduction strategies through increased interagency and international cooperation as narcotics trafficking has increasingly gone global.

Countering Transnational Organized Crime in the 2017 U.S. National Security Strategy

The 2017 U.S. National Security Strategy prioritizes homeland security in its Pillar I Directive to protect the homeland, the American people, and the American way of life from terrorist and criminal groups including the Mexican TCOs. Pillar I calls upon government agencies to:

- Secure U.S. Borders and Territory (Defend against WMD, Combat Biothreats and Pandemics, Strengthen Border Control and Immigration Policy)
- Pursue Threats to Their Source (Defeat Jihadist Terrorists and Dismantle Transnational Criminal Organizations)
- Keep America Safe in the Cyber Era
- Promote American Resilience

The strategy recognized transnational organized crime as a threat to U.S. interests

¹⁰ Nathaniel Popper, "Dark Web Drug Sellers Dodge Police Crackdowns, The notorious Silk Road site was shut down in 2013. Others have followed. But the online trafficking of illegal narcotics hasn't abated," *The New York Times*, June 11, 2019
<https://www.nytimes.com/2019/06/11/technology/online-dark-web-drug-markets.html>

at home and abroad and underscores the need to pursue these threats to their source. This provides validation for U.S. foreign assistance programs to counter transnational organized crime beyond our borders. According to the strategy, the U.S. must devote greater resources to dismantle transnational criminal organizations and their subsidiary networks. Some have established global supply chains that are comparable to Fortune 500 corporations. Every day they deliver drugs to American communities, fuel gang violence, and engage in cybercrime. The illicit opioid epidemic, fed by Mexican drug cartels as well as Chinese fentanyl traffickers, kills tens of thousands of Americans each year. These organizations weaken our allies and partners too, by corrupting and undermining democratic institutions. TCOs are motivated by profit, power, and political influence. They exploit weak governance and enable other national security threats, including terrorist organizations. In addition, some state adversaries use TCOs as instruments of national power, offering them territorial sanctuary where they are free to conduct unattributable cyber intrusions, sabotage, theft, and political subversion.

The National Security Strategy includes the following counter crime priority actions:

- Improve strategic planning and intelligence domestically and internationally
- Defend communities through national and community-based prevention and demand reduction efforts, increase access to evidenced-based treatment for addiction, improve prescription drug monitoring.
- Defend in depth through cooperation with foreign partners to target TCOs and break the power of these organizations and networks, especially in the Western Hemisphere.
- Counter cyber criminals to disrupt the ability of criminals to use online marketplaces, cryptocurrencies, and other tools for illicit activities.¹¹

U.S. agencies including the Departments of Defense, Health and Human Service, Homeland Security, Justice, State, and Treasury are implementing this strategy domestically and internationally to counter the threats posed by Mexican TCOs.

¹¹ White House, U.S. National Security Strategy 2017, <https://www.whitehouse.gov/wp-content/uploads/2017/12/NSS-Final-12-18-2017-0905.pdf>

U.S.-Mexican Efforts to Address the Evolving Drug Trade

The U.S. and Mexico have one of the most extensive bilateral military and law enforcement relationships in the world that illustrates the concept of “defense in depth” in practice. The two countries continue to strengthen cooperation to interdict illegal drug flows, dismantle criminal organizations, and cut off their sources of funding. Since the launch of the Merida Initiative in 2008, the U.S. has helped build the capacity of Mexican authorities to more effectively eradicate opium poppy, disrupt and prosecute drug production and trafficking, and enhance border security. However, both countries must intensify their efforts to address the growing public health implications and violence associated with the evolving drug trade and the opioid epidemic. The two countries must step up their demand and supply reduction, detection and interdiction, violence reduction, counter-money laundering, and cyber measures to keep up with the rapid changes in the production, marketing, financing and delivery of drugs, particularly synthetics.

Supply Reduction Measures: The U.S. and Mexico have worked together for years to reduce the production and supply of narcotics. Under the Merida Initiative, bilateral projects disrupt TCOs and hinder their ability to produce and traffic drugs to the U.S. These projects include poppy eradication programs, training and equipment to dismantle clandestine drug labs, advanced airport security technology, border inspection equipment and reconnaissance technologies to improve maritime interdiction. The U.S. also provides security assistance for drug interdiction equipment and training to military and law enforcement personnel.¹²

The U.S. government estimates opium poppy cultivation in Mexico reached 44,100 hectares (ha) in 2017, a concerning increase from 32,000 ha in 2016. According to the Mexican government, Mexico eradicated 4,231 hectares (ha) of marijuana and 29,207 ha of opium poppy in 2017. In 2018, the Trump Administration assisted Mexico to get a more detailed picture of its poppy problem and supplied Mexican authorities with drones and geolocation technology. The U.S. is also funding studies to pinpoint how much

¹² U.S. Department of State “2019 International Narcotics Control Strategy Report,” Bureau for International Narcotics and Law Enforcement Affairs, <https://www.state.gov/wp-content/uploads/2019/04/INCSR-Vol-1-1.pdf>

poppy is being planted and how much heroin is produced from it.¹³ During the first six months of 2018, Mexico reportedly seized approximately 5.53 metric tons (MT) of cocaine; 110.7 MT of marijuana; 16,267 cannabis fields; 38.5 kg of opium gum; 149,357 poppy fields; 6.3 MT of methamphetamine; 316 kg of heroin; and 37 clandestine laboratories.¹⁴

Detection and Interdiction Measures: The U.S. and Mexico are leveraging new technologies and canine units to better detect synthetic drug laboratories and interdict fentanyl and meth cross-border trafficking. In June 2019, three synthetic drug labs producing methamphetamine were dismantled in Mexico, detected by thermal detection drones that identify heatwaves in uninhabited areas. Sinaloa State Secretary for Public Safety Cristobal Castaneda said the labs were set to produce some 17 million doses worth some \$160 million on the U.S. market. As of June 2019, twenty laboratories have been dismantled in Sinaloa, 17 producing methamphetamine, two making fentanyl and one producing heroin; eight meth labs were taken apart in the state in 2018.¹⁵

Canines donated through the Merida Initiative to Mexico made significant seizures of illicit drugs, including fentanyl. For example, in May 2018, canines discovered 25 liters of chemical precursor and 450 liters of hydrochloric acid at parcel companies in Durango and Guadalajara. In July, a canine unit located 1,280 liters of sulfuric acid at a parcel company in Guadalajara, and 4.9 kg of methamphetamine during an inspection in Michoacan.¹⁶ Detection dogs can alert officers to 19,000 types of explosives, while other canines are trained to smell marijuana, cocaine, meth, heroin, opiates, and LSD, but the drug dogs were not trained to detect fentanyl until 2017.¹⁷ The

¹³ Joshua Partlow, "U.S. has Been Quietly Helping Mexico with New, High-tech Ways to Fight Opium," *The Washington Post*, April 15, 2018, https://www.washingtonpost.com/world/the_americas/us-has-been-quietly-helping-mexico-with-new-high-tech-ways-to-fight-opium/2018/04/15/dc18eda0-26d5-11e8-a227-fd2b009466bc_story.html

¹⁴ U.S. Department of State "2019 International Narcotics Control Strategy Report," Bureau for International Narcotics and Law Enforcement Affairs, <https://www.state.gov/wp-content/uploads/2019/04/INCSR-Vol-1-1.pdf>

¹⁵ "Three large meth labs dismantled in Mexico," *France24*, June 5, 2019, <https://www.france24.com/en/20190605-three-large-meth-labs-dismantled-mexico>

¹⁶ *Ibid.*

¹⁷ Sari Horwitz, Scott Higham, "The flow of fentanyl: In the mail, over the border," *The Washington Post*, August 23, 2019, <https://www.washingtonpost.com/investigations/2019/08/23/fentanyl-flowed-through-us-postal-service-vehicles-crossing-southern-border/?arc404=true>

U.S. and Mexico are training more canine units to be deployed against fentanyl and meth trafficking.

The U.S.-Mexico border is the world's busiest with more than \$1 billion worth of legitimate freight trafficked through southwest entry ports and tens of thousands of passenger vehicles daily. According to U.S. CBP statistics, 90 percent of heroin seized along the border, 88 percent of cocaine, 87 percent of methamphetamine, and 80 percent of fentanyl in the first 11 months of the 2018 fiscal year was caught trying to be smuggled in at legal crossing points.¹⁸ Currently, U.S. Customs and Border Protection only scans less than 2% of privately-owned vehicles and 16% of all commercial vehicles, and 90% of all fentanyl seizures occur at legal points of entry. U.S. and Mexican security forces have had to take extra precautions in handling suspected fentanyl shipments as physical exposure to the drug could be lethal. Over the past year, U.S. CBP, ICE, and Border Patrol agents and Mexican authorities have been overwhelmed by the migrant caravans trying to enter the U.S. from Mexico that has strained counternarcotics operations.

In late January 2019, U.S. Customs and Border Protection officials in Arizona reported their largest-ever seizure of fentanyl; 254 pounds of powder and pills were hidden in a truck transporting cucumbers at a Nogales, Arizona crossing. In addition to the fentanyl, which was concealed in a secret floor compartment of the trailer, officers also uncovered 395 pounds of methamphetamine. CBP officers used a canine team and x-ray technology to search the truck and opened the false floor compartment to find 400 packages of narcotics, an estimated \$3.5 million worth of fentanyl and \$1.1 million worth of methamphetamine. The load included enough for more than 100 million lethal doses of fentanyl.¹⁹ As of June 2019, Customs and Border Protection has seized more than 2,000 pounds of fentanyl, more than enough to poison the entire U.S. population. On top of CBP's drug interdictions at the border, Homeland Security Investigations (HSI), part of

¹⁸ Alan Gomez, Fact-checking Trump officials: Most drugs enter US through legal ports of entry, not vast, open border, *USA Today*, January 16, 2019

<https://www.usatoday.com/story/news/politics/2019/01/16/fact-check-mike-pence-donald-trump-drugs-crossing-southern-border-wall/2591279002/>

¹⁹ Nick Miroff, "U.S. border officers make largest-ever fentanyl bust: 254 pounds hidden under cucumbers," *The Washington Post*, January 31, 2019, https://www.washingtonpost.com/world/national-security/us-border-officials-announce-largest-ever-fentanyl-seizure/2019/01/31/a43eeb62-258c-11e9-90cd-dedb0c92dc17_story.html

DHS Immigration and Customs Enforcement, seized more than 9,900 pounds of opioids in 2018, including 2,737 pounds of fentanyl; the agency is expected to exceed those numbers in 2019.²⁰

Financial and Cyber Measures: Over the past six years, governments have dedicated more substantial resources to fighting Darknet markets, especially as their role in the rise of synthetic opioids has become more evident. An opioid dealer can be anyone with access to the Internet, and buyers can visit dark web sites anonymously using special browsers and make purchases with virtual currencies like Bitcoin, making transactions difficult to trace.²¹ Not only do individual users buy drugs on the Darknet, so do dealers who go on to resell the drug in their local area across the U.S. With opioids, users can order from their living room and never go out to the street.

In early 2018, the F.B.I. created the Joint Criminal Opioid Darknet Enforcement (J-Code) team with more than a dozen special agents and staff. Europol also has its own dedicated dark web team. J-Code's Operation SaboTor conducted concentrated operations in the U.S. and abroad between January and March 2019 that led to 61 arrests and shut down 50 Darknet accounts used for illegal activity; agents executed 65 search warrants and seized more than 299 kilos of drugs, 51 firearms, and more than \$7 million (\$4.504 million in cryptocurrency, \$2.485 million in cash, and \$40,000 in gold). On April 3, 2019, the FBI and Europol announced another major operation, the takedown of dark-web news and information site DeepDotWeb, which had quietly made millions of dollars from offering promotional links to black market sites in a kind of underground affiliate marketing scheme. DeepDotWeb was considered as a gateway to the dark web for drugs.²²

The J-Code agents that carried these operations, from the FBI, Homeland Security Investigations, Drug Enforcement Administration, Postal Service, Customs and Border Protection, and Department of Defense, now all sit together at the FBI's Washington headquarters. They work full-time to following the trail of dark-web

²⁰ Leadra Bernstein, "Most Fentanyl is Trafficked Across US-Mexico Border, Not China," WJLA.com, July 16, 2019, <https://wjla.com/news/nation-world/most-fentanyl-is-now-trafficked-across-us-mexico-border-not-from-china>

²¹ *Ibid.*

²² Andy Greenberg, "Feds Dismantled the Dark-Web Drug Trade—but It's Already Rebuilding," *Wired*, April 9, 2019, <https://www.wired.com/story/dark-web-drug-takedowns-deepdotweb-rebound/>

suspects, from tracing their physical package deliveries to following the trail of payments on Bitcoin's blockchain and with other cryptocurrencies.²³ Similarly, DHS Homeland Security Investigations is making inroads into the use of cryptocurrencies and the Darknet by fentanyl suppliers. As of July 2019, the agency has seized nearly \$1.9 million in fentanyl-related digital currency. HSI also has more than 700 open cyber investigation and 200 investigations into the criminal Darknet, many focused on illicit opioid suppliers.²⁴

The U.S. and Mexico are stepping up efforts to go after the financing and money laundering connected with fentanyl trafficking. In August 2019, FinCEN, the U.S. financial intelligence unit that collects and analyzes information about financial transactions to combat money laundering, terrorist financing, and other financial crimes, issued an advisory to specifically address opioid trafficking. The advisory seeks to assist financial institutions in detecting and reporting suspicious activity, making it harder and more costly for criminals to (i) commit these crimes; (ii) hide and use their illicit money; and (iii) continue fueling the opioid epidemic. This advisory highlights the primary methods and red flags associated with (i) the sale of these drugs by Chinese, Mexican, or other foreign suppliers; (ii) methods used by Mexican and other TCOs to launder the proceeds of fentanyl trafficking; and (iii) financial methodologies associated with the sale and procurement of fentanyl over the Internet by purchasers located in the United States.²⁵ Detecting, disrupting and deterring the financing and income generated by drug trafficking continue to be important tools to pursue the Mexican cartels who are enriched and empowered by these illicit markets.

Violence and Arms Trafficking Reduction Measures: Since 2006, Mexico has been waging a war against drug trafficking organizations with significant military and police deployments; but the drug trade and high levels violence continue. The violence is

²³ Federal Bureau of Investigation, Operation SaboTor Federal Partnerships Key to Dismantling Online Drug Markets, March 26, 2019, <https://www.fbi.gov/news/stories/j-code-operation-sabotor-032619>

²⁴ Leandra Bernstein, Most fentanyl is now trafficked across US-Mexico border, not from China," WJLA News, July 16, 2019, <https://wjla.com/news/nation-world/most-fentanyl-is-now-trafficked-across-us-mexico-border-not-from-china>

²⁵ FinCEN Advisory to Financial Institutions on Illicit Financial Schemes and Methods Related to the Trafficking of Fentanyl and Other Synthetic Opioids, August 21, 2019, <https://www.fincen.gov/sites/default/files/advisory/2019-08-21/Fentanyl%20Advisory%20FINAL%20508.pdf>

a result of the fragmentation of more established cartels and local gangs fighting for territory and control of critical drug trafficking routes. At the same time, impunity in Mexico, where 95% of killings go unpunished, has spurred more people to take up arms and carry out their own justice. According to preliminary numbers from the National Public Security System (Sistema Nacional de Seguridad Pública – SNSP), Mexico registered a record 35,588 of murders by then end of 2019, while it already logged 29,111 killings in 2018, 33% more than in 2017. In 2004, a quarter of Mexico’s homicides were committed with a gun; today, guns are blamed for 72% of killings. Mexico estimates 80% of weapons used by criminals come from U.S. Of the 132,823 guns recovered at crime scenes in Mexico from 2009 to 2018, 70% were found to have originated in the U.S primarily in Southwest border states of California, Arizona and Texas. Most firearms trafficked to Mexico from the U.S. are bought legally at gun shows or stores by people known as “straw purchasers,” who then hand them off to cartels or middlemen.

Weapons trafficking from the U.S. into Mexico has been a perennial issue on the bilateral security agenda. President Enrique Peña Nieto, who preceded Andres Manuel Lopez Obrador (AMLO), complained about the flow of American guns to Mexico. However, seizures of illegal weapons fell precipitously during his six-year term, in part because he largely abandoned initiative to inspect more vehicles heading south into Mexico that had been launched under President Felipe Calderon. The current Mexican Administration has vowed to bring back those inspections. In July 2019, Foreign Minister Marcelo Ebrard said Mexico’s military would coordinate with U.S. authorities to launch anti-gun-smuggling operations along the border.

While the majority of weapons trafficked in Mexico do come from the U.S., some firearms from the Mexican military and police have ended up in cartel hands. Under the Merida Initiative, U.S. exports of firearms, ammunition, explosives and gun parts to Mexico rose to roughly \$40 million a year, according to the advocacy group Stop U.S. Arms to Mexico, and the Mexican army vastly increased its own production of firearms. At the same time, criminals were discovering another source of firearms - the Mexican police. More than 22,000 firearms purchased by state and federal police were reported lost or stolen between 2000 and 2015, according to Mexican military documents. For example, in Guerrero, police reported that one in five of the firearms they acquired

between 2010 and 2016 were lost or stolen. This access to military-grade weapons has made confrontations between the transnational criminal organizations and Mexican security forces more deadly.

Cartel violence in Mexico made world headlines on October 17, 2019 when Mexican security forces were overwhelmed by the Sinaloa Cartel in a failed operation to capture one of El Chapo Guzman's sons in Culiacan, Sinaloa, the heart of cartel country. In February 2019, the U.S. Justice Department announced it had indicted Ovidio Guzman, son of El Chapo, on trafficking cocaine, marijuana and meth and sought his extradition to the U.S. The battle in Culiacan that left at least eight dead resembled a war zone in Afghanistan or Iraq. It showcased the Sinaloa Cartel's tremendous fire power with high-powered weapons, including mounted .50 caliber machine guns, urban warfare tactics, and scores of loyalists ready to fight to their death for the Guzman family. After a four-hour siege of the city and a jailbreak that freed cartel operatives, government forces eventually freed Ovidio Guzman. President Andres Manuel Lopez Obrador (AMLO) defended the decision to release Guzman as necessary to protect the lives of civilians and security personnel. He stated "Capturing a criminal can't be worth more than people's lives. We don't want dead people; we don't want war." The failed operation in Culiacan has been characterized as the "de facto" capitulation of the Mexican government to the Sinaloa Cartel and demonstrated the failure of the government's security services, including the newly minted National Guard, to successfully plan, coordinate and execute the capture of a high-value target, namely one of El Chapo's heirs who run the cartel.

In the wake of the Culiacan debacle, firearms trafficking from the U.S. to Mexico returned to the spotlight. According to Mexican Foreign Minister Marcelo Ebrard, Presidents Trump and Lopez Obrador spoke by phone after the October 17 operation and pledged curb arms trafficking by increasing border controls to freeze the "traffic of arms that are killing people in Mexico." Counter trafficking measures are to include deploying more x-ray, metal detection and laser equipment at the border to monitor southbound traffic leaving the U.S.

Conclusion

Global illicit networks are engaged in the trafficking of illegal substances and the Mexican cartels are no different. Mexican TCOs control the supply chains that move drugs, people, guns and money and use violence or the threat of violence to secure their power. The proliferation of synthetic drugs and new markets on the Internet are expanding the illicit drug trade in the Americas and presenting significant public health and security challenges to Mexico and the United States. Both countries have been fighting drug trafficking for decades but now need to better understand the evolving variety, production, marketing, financing, and delivery of narcotics and modernize their strategies to decrease both supply and demand. More resources must be marshalled to anticipate, detect and interdict new synthetic drugs and take the fight against trafficking into the cyber domain. At the same time, the unprecedented levels of violence in Mexico must be addressed by improving the capacity of Mexican security forces to confront the cartels and by reducing the flow of illegal firearms from the U.S. and diversions from Mexican security forces. After the Sinloa Cartel's siege of Culiacan, it is unclear what impact President Lopez Obrador's "hugs not bullets" security strategy will have on these criminal organizations and rising violence in Mexico. It might be perceived as an accommodation of the cartels that will empower them further and increase drug trafficking.

The U.S. and Mexico should continue to collaborate on the bilateral security agenda through information and intelligence sharing, joint counternarcotics and border security operations, and financial investigations against the Mexican cartels. Both countries must stay focused on countering drug trafficking and transnational criminal organizations even when the migration crisis dominates the U.S.-Mexico agenda and will be a key issue in the 2020 U.S. presidential elections. Political will on both sides of the Rio Grande combined with effective security strategies and capabilities will be paramount in order to counter the evolving drug trade in the Americas.

Statement of
Angel Nguyen Swift, Esq., CAMS
Founder and Director, Stand Together Against Trafficking (STAT)
And
Advisor, Enigma Technologies
Before
The House Subcommittee on National Security, International Development, and Monetary
Policy
March 4, 2020

Chairman Cleaver, Ranking Member Hill and esteemed members of the Subcommittee. I am honored to appear before you this morning to discuss an issue that is so incredibly important to the fabric of who we are as a society, and that is ripe for meaningful solutions and progress.

I've been very fortunate to be part of a passionate and dedicated community of professionals who continue to work tirelessly protecting the financial system from illicit and nefarious activity. The community I'm referring to is the Anti-Money Laundering (AML) and Counter Financing of Terrorism (CFT), or more recently referred to as the anti-financial crime (AFC), community. This includes financial institutions, law enforcement, government agencies, non-profit organizations and even technology companies. For the past 18 years, I have seen criminal networks, time and time again, exploit and abuse our financial systems - first as I joined the Manhattan District Attorney's Office as a prosecutor on September 4, 2001, then as I sat in the World Financial Center, located directly across from ground zero, leading efforts to build a financial intelligence unit at American Express, and most recently in my position at Enigma Technologies where I more intimately learned how data and technology can play a crucial role in our AML/CFT ecosystem. Through these experiences, I am more convinced than ever that the only way to successfully dismantle trafficking organizations, which so brazenly exploit multiple aspects of humanity, environment and safety, is through coordinated, collaborative communities that build and share financial intelligence - through (1) the identification of effective typologies and indicators, and (2) creating specific data assets that can be leveraged by financial institutions

and law enforcement for leads on specific investigations. It is with this conviction that the Stand Together Against Trafficking (or STAT)¹ initiative was created three years ago. I will address STAT, and other similar efforts, later.

There are three main points I hope to convey through my testimony:

1. financial intelligence and evidence is crucial to secure successful prosecution of trafficking networks;
2. financial institutions are well positioned to assist law enforcement in identifying strong investigative leads, given that different trafficking networks often exhibit overlapping financial indicators. In fact, there are already many proactive, ongoing efforts led by financial institutions to identify these indicators; and
3. to step up progress, a more unified, multi-dimensional (inter and intra-agency, public/private and cross industries), collaborative ecosystem must be established, ideally, with support and coordination through government agencies.

The Role of Financial Intelligence² in the Prosecution of Trafficking Cases

Financial intelligence in trafficking prosecutions plays a crucial role in identifying and defining the business model of a criminal enterprise, affirming the traffickers' motivation and knowledge, corroborating victim and eyewitness testimony, and assisting in the identification of affiliates such as third-party facilitators such as attorneys, accountants and real estate professionals. It can also support charges for financial crimes which are less reliant on victim cooperation and can enable higher penalties. This is especially important when no specific "victim" voice exists, as in the case of wildlife, weapons or organ trafficking. Furthermore, financial intelligence helps identify assets for forfeiture which can be used to support victims.

¹ <https://stat.enigma.com/>

² There is a difference between financial intelligence from financial evidence. Financial intelligence is gathering information to identify the financial activity of an entity. Financial evidence involves the actual financial records necessary to show specific activity of an entity's financial accounts identified through financial intelligence. Both are equally important and effective. For the purposes of this hearing, and unless otherwise specifically noted, financial intelligence will be used to include both the process of identifying the financial activity and the records that support it.

A specific challenge that financial intelligence helps to address is the often difficult task of securing victim testimony in cases where the victims are too afraid to come forward. Securing financial records that corroborate or, in some cases, that can tell a victim's story has proven to be a gamechanger for prosecutors. Setting an investigative precedent to aggressively pursue financial intelligence alleviates the burden on victim and eyewitness testimony, and could also encourage others to come forward.

Financial intelligence can be complex and making sense of it quite time consuming, especially when dealing with networks that have established multiple layers and relationships with different financial institutions in different geographies and leveraging multiple financial products. Investigators and prosecutors have to be specifically trained to navigate the convoluted financial ecosystem on top of managing the already arduous task of proving elements of the core trafficking crimes.

One way prosecutors' offices have recognized the importance the role of financial intelligence plays in these cases is by dedicating specific resources with expertise in both trafficking financial crime prosecution to review all trafficking cases. A few examples include:

- (1) The Department of Justice's (DOJ) Money Laundering Asset Recovery Section (MLARS) has a specially designated Assistant United States Attorney (AUSA) that works with the DOJ Human Trafficking Unit's AUSAs to identify whether there are any financial crimes that can be charged alongside trafficking charges. In addition, MLARS conducts training for prosecutors and agents to reinforce the importance of financial intelligence.
- (2) The Manhattan DA's Office has continually prioritized financial investigations in all human and wildlife trafficking cases.
- (3) The Buffet-McCain Institute Initiative to Combat Modern Slavery³ was awarded a grant to pilot a program to train prosecutors in elements of labor trafficking with an emphasis on financial intelligence.

In order to secure successful prosecutions in trafficking cases, financial intelligence must be leveraged.

³ <https://www.themonitor.com/2019/01/18/da-first-nation-focus-unit-human-trafficking/>

The Financial Institutions' Unique Position to Help Disrupt Trafficking

Financial institutions are well positioned to assist law enforcement in identifying trafficking networks, and are, in fact, already highly motivated and involved in doing so. Trafficking is inherently a commercial enterprise and, as such, financial institutions are uniquely positioned to address the largest motivator of traffickers: profit. In order to keep up in today's economy, businesses must have access to financial services, which include convenient and fast ways to facilitate payments, a secure place for funds to be stored and an infrastructure that allows businesses to access their money anywhere. In fact, the mobile and virtual nature of banking today is ideal for growing businesses. Given these dependencies, the ability to restrict legitimate access to the financial system can greatly stifle a business, reducing its profitability. In the context of a trafficking business, it is known that one of the main uses of the financial system is to open multiple accounts, sometimes through the use of identity theft, in order to create layers of transaction flows. If a control can be created to prevent traffickers from opening multiple accounts, this would greatly inhibit their ability to move their money in this manner. It is also known that pre-paid cards are used for several "business" purposes (e.g., payroll, purchase of supplies); if financial institutions can prohibit the purchase of pre-paid cards when certain known indicators present themselves, traffickers' ability to "do business" may be effectively disrupted.

In addition, the AML regulatory landscape provides opportunity for financial institutions to be an active participant in helping law enforcement hold bad actors accountable, and in fact, goes to the heart of the intent of the regulation. Through Know Your Customer (KYC), Customer Due Diligence (CDD) and suspicious activity reporting requirements, there are many areas where financial institutions already help detect activity indicative of trafficking networks. However, to do so more effectively, they need better information about trafficking networks to more precisely identify the various ways traffickers have hidden their activity throughout the system.

With better information, financial institutions can integrate (1) trafficking-specific factors or lists into already existing risk assessments and/or screening processes, (2) incorporate specific typology-driven criteria into their transaction monitoring rule program, and (3) provide more effective and targeted information to law enforcement through established channels of communication such as suspicious activity reports. This is especially important because we know there are commonalities in the way different types of trafficking networks present themselves via

financial records. The easier it is to share information and data about these commonalities among the appropriate parties, the easier it is to identify trafficking organizations and associated parties, and the easier cut off their access to the financial system. The more successful we are disrupting financial access, the more successful we will be at dismantling networks.

Building on Existing Proactive Collaborations

Today, there are many proactive efforts financial institutions take to better understand how trafficking networks operate, allowing them to more effectively implement their AML programs. These collaborative efforts include: public/private working groups to define financial red flags or indicators to enhance monitoring for bad activity; targeted task forces that respond in times of potentially high impact, like sporting events; coordinated industry meetings with law enforcement to learn about the latest trends; and training from non-profit organizations focused on studying how the financial system is exploited by traffickers. There is a lot of good information out there, but because time and resources are limited, these efforts are performed on an ad hoc basis and are disparate in nature. This means any information or learnings are decentralized, unstructured and disorganized, leading to many missed opportunities to fully explore and analyze how we can build upon the outcomes of these efforts.

In addition to STAT, other specific examples of these efforts include: (1) the Thomson Reuters Foundation Banker's Alliances in the U.S., Europe and Asia, where a consortium of regional financial institutions collaborated on categorizing red flags of human trafficking specific to each region; (2) the Arts and Antiquities Coalition Working Group, comprised of subject matter experts in AML, research organizations and private companies that have come together to create a framework to help businesses understand how arts and antiquities can be utilized in illicit finance; (3) Stop the Traffik Analysis Hub⁴, which brought together technology partners, financial institutions and data analysts to create a way to leverage public data to track human trafficking-related activity; (4) Anti-Human Trafficking Intelligence Initiative (ATII)⁵, a newly formed organization, aimed toward disrupting human trafficking through a variety of collaborations; and (5) the Finance Against Slavery and Trafficking (FAST)⁶ project, which is a strategic partnership

⁴ <https://www.stopthetraffik.org/what-we-do/traffik-analysis-hub/>

⁵ <https://followmoneyfightslavery.org/>

⁶ <https://www.fastinitiative.org/>

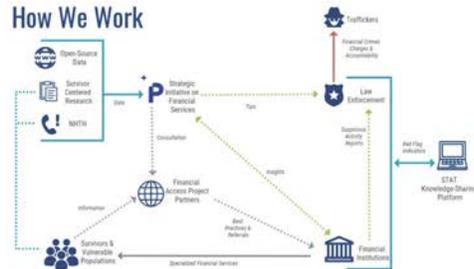


Figure 2. Polaris Financial Intelligence Unit network is focused on targeted research and analysis to fill knowledge gaps, as well as facilitating coordinated, consistent response from financial services through knowledge sharing.

Finally, it is important that we keep the bigger picture in mind and not think about trafficking as a problem in isolation. The reality is that trafficking is often linked to other illicit activity, such as corruption. Trafficking thrives in vulnerable countries, where corrupt governments have no interest in implementing proper AML/CFT controls. As such, it is necessary to understand the political and financial landscape of these vulnerable countries to fully assess risks related to trafficking. Organizations like The Sentry⁸ (previously known as the Enough Project), for example, have dedicated resources to understand what drives corruption and what impacts corruption has on the local financial systems in areas like South Sudan, Congo and Uganda.

Other bigger picture partners include efforts made by organizations that leverage data analysis and technology to understand and fight trafficking in partnership with law enforcement. Understanding the infrastructure needed to build tools and conduct analysis helps us develop more robust solutions. Examples of such organizations include Tellfinder Alliance⁹ (a data network technology partnership with law enforcement build cases), Thorn's Spotlight tool¹⁰ (a tool build to help law enforcement search online ads for evidence of sex trafficking), childsafe.ai¹¹ (a platform that uses artificial intelligence to identify child exploitation risks online), and several universities are also dedicating research programs to explore how data science can help track

⁸ <https://thesentry.org/>

⁹ <https://www.tellfinder.com/>

¹⁰ <https://www.thorn.org/spotlight/>

¹¹ <https://childsafe.ai/>

trafficking rings. International efforts and resources including Organization for Security and Co-operation in Europe (OSCE)¹² and Project Protect¹³ must also be utilized when looking for models of successful collaboration. Finally, we cannot overlook the importance of non-financial institution private industry partners including technology, agriculture, hospitality, travel, and shipping companies, just to name a few.

As we expand our village, we also expand our opportunities.

Stand Together Against Trafficking (STAT)

STAT is an industry-wide collaborative effort with a mission to advance anti-trafficking efforts within the anti-financial crime community through scaling the development of collaborative intelligence already in motion. By bringing together partners representing the financial, non-profit, research and technology sectors, STAT leverages all necessary perspectives to yield more impactful outcomes.

A crucial part of the effort is the STAT knowledge sharing platform, which provides a central repository, starting with vetted¹⁴ human trafficking indicators. By centralizing the collection of financial indicators, the platform delivers a unified structure and common language, designed by a network of financial institutions – including Truist, US Bank and Western Union, law enforcement agencies, technology and non-profit partners. This approach allows our entire community to access indicators specific to their needs without having to find, access and review hundreds of pages of reports. This also ensures that all financial institutions, regardless of size or specific ability to be involved in extraneous efforts, have access to information necessary to combat trafficking.

¹² <https://www.osce.org/secretariat/107823>

¹³ <https://www.fintrac-canafe.gc.ca/emplo/psr-eng>

¹⁴ To start, the indicators mapped to the STAT Knowledge Sharing Platform come from a variety of known sources such as FATF, FinCEN guidance, other government documents and learnings from collaboration such as the US Banker's Alliance.

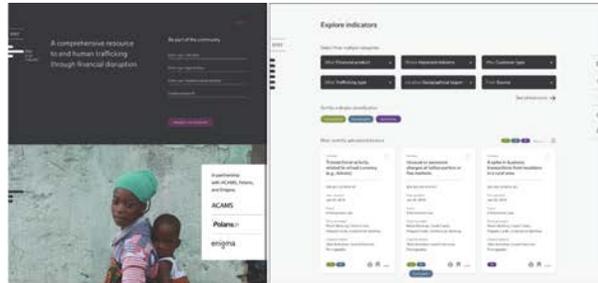


Figure 3. The STAT Knowledge Sharing Platform allows users to access indicators by categories, making what would normally be difficult to find, readily accessible.

In addition to exploring existing indicators, users can also contribute indicators to the platform, crowd-sourcing knowledge and efficiently sharing resources. This is done in a structured way so that the indicators are mapped to the larger repository, allowing all users to access and search newly uploaded indicators quickly.

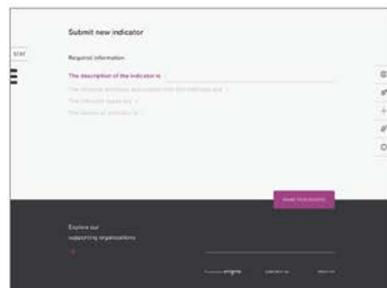


Figure 4. The ability for any member of the community to upload indicators in a structured format creates a way for indicators to be shared quickly

The STAT platform is not only a tool, but also a statement and proof that collaboration across multiple industries is the most powerful weapon we have to fight not only human trafficking, but, all types transnational trafficking.

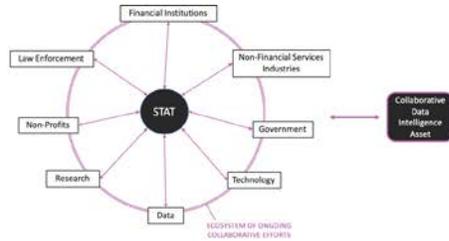


Figure 3. The end-goal for STAT is to connect all sources of intelligence into a unified ecosystem in order to produce a data intelligence asset that can be shared and enhanced regularly.

Comments on Two Proposed Bills Before This Subcommittee

The two proposed bills before the subcommittee have great potential to identify strong channels and tools with which to dismantle trafficking networks through the financial system.

- (1) Regarding H.R. ____: the Stopping Trafficking, Illicit Flows, Laundering, and Exploitation Act (McAdams), the framework for this study can have far-reaching impact if the committee casts a wide net in its outreach to the anti-human trafficking and anti-financial crime communities. I would urge the committee to be sure to include the perspectives of law enforcement, non-profits (especially those who are speaking for survivors and victims), private sector institutions (financial institutions, data and technology companies) and research organizations.
- (2) Regarding H.R. 1387, the CONFRONT Act (Kustoff), the report mandated by this proposal can create a mechanism to centralize efforts around combating trafficking through the financial system. I would urge the committee to incorporate at least a review, if not a partnership, with certain international organizations and agencies like the OSCE. In addition, whether it is directly mandated as part of this bill or requires an additional proposal, I suggest that the committee consider developing a methodology to create a collaborative data intelligence asset that is updated frequently and accessible to law enforcement and financial institutions. Perhaps a similar framework to consider is the U.S. Presidential Decision Directive 63 which led to the creation of the Financial Services Information Sharing and Analysis Center (FS-ISAC) with a mission to reduce cyber risk

in the global financial system. The directive was later updated by Homeland Security in 2003 under Presidential Decision Directive 7.

In order to dismantle trafficking networks through financial disruption, we must create a coordinated ecosystem that facilitates collaboration and information sharing to understand how trafficking networks utilize financial systems. This will provide financial institutions the information it needs to effectively monitor and detect more effective leads to help law enforcement investigate and, ultimately, prosecute the people responsible for these horrific acts.

