

**BREAKING THE METHAMPHETAMINE SUPPLY  
CHAIN: LAW ENFORCEMENT CHALLENGES**

---

---

**HEARING**  
BEFORE THE  
**COMMITTEE ON FINANCE**  
**UNITED STATES SENATE**  
ONE HUNDRED NINTH CONGRESS  
SECOND SESSION

—————  
SEPTEMBER 12, 2006  
—————



Printed for the use of the Committee on Finance

—————  
U.S. GOVERNMENT PRINTING OFFICE

37-178—PDF

WASHINGTON : 2006

---

For sale by the Superintendent of Documents, U.S. Government Printing Office  
Internet: bookstore.gpo.gov Phone: toll free (866) 512-1800; DC area (202) 512-1800  
Fax: (202) 512-2250 Mail: Stop SSOP, Washington, DC 20402-0001

COMMITTEE ON FINANCE

CHARLES E. GRASSLEY, Iowa, *Chairman*

ORRIN G. HATCH, Utah	MAX BAUCUS, Montana
TRENT LOTT, Mississippi	JOHN D. ROCKEFELLER IV, West Virginia
OLYMPIA J. SNOWE, Maine	KENT CONRAD, North Dakota
JON KYL, Arizona	JAMES M. JEFFORDS (I), Vermont
CRAIG THOMAS, Wyoming	JEFF BINGAMAN, New Mexico
RICK SANTORUM, Pennsylvania	JOHN F. KERRY, Massachusetts
BILL FRIST, Tennessee	BLANCHE L. LINCOLN, Arkansas
GORDON SMITH, Oregon	RON WYDEN, Oregon
JIM BUNNING, Kentucky	CHARLES E. SCHUMER, New York
MIKE CRAPO, Idaho	

KOLAN DAVIS, *Staff Director and Chief Counsel*  
RUSSELL SULLIVAN, *Democratic Staff Director*

# CONTENTS

## OPENING STATEMENTS

	Page
Grassley, Hon. Charles E., a U.S. Senator from Iowa, chairman, Committee on Finance .....	1
Baucus, Hon. Max, a U.S. Senator from Montana .....	2
Lott, Hon. Trent, a U.S. Senator from Mississippi .....	4

## WITNESSES

Springer, Lt. Dan, commander, Missouri River Drug Task Force, Bozeman, MT .....	5
Venne, Carl, Crow tribal chairman; Tribal Leaders Council chairman; and advisory member, Montana Meth Project, Crow Agency, MT .....	6
McCullough, Sean, special agent in charge, Iowa Division of Narcotics Enforcement, Des Moines, IA .....	8
Rannazzisi, Joseph T., Deputy Assistant Administrator, Office of Diversion Control, Drug Enforcement Administration, Washington, DC; accompanied by Robert T. Patton, Section Chief, Mexico-Central America Section, Office of Financial Operations, Drug Enforcement Administration, Arlington, VA ..	16
Passic, Gregory, Director, Office of Drug Interdiction, U.S. Customs and Border Protection, Washington, DC .....	18
Martin, C. André, Director, Operations Policy and Support, IRS Criminal Investigation, Washington, DC .....	19

## ALPHABETICAL LISTING AND APPENDIX MATERIAL

Baucus, Hon. Max:	
Opening statement .....	2
Prepared statement .....	33
Grassley, Hon. Charles E.:	
Opening statement .....	1
Prepared statement .....	36
Lott, Hon. Trent:	
Opening statement .....	4
Martin, C. André:	
Testimony .....	19
Prepared statement .....	37
Responses to questions from committee members .....	44
McCullough, Sean:	
Testimony .....	8
Prepared statement .....	47
Responses to questions from committee members .....	55
Passic, Gregory:	
Testimony .....	18
Prepared statement .....	57
Responses to questions from committee members .....	61
Rannazzisi, Joseph T.:	
Testimony .....	16
Prepared statement .....	66
Springer, Lt. Dan:	
Testimony .....	5
Prepared statement .....	79
Responses to questions from committee members .....	81
Venne, Carl:	
Testimony .....	6
Prepared statement .....	82



## **BREAKING THE METHAMPHETAMINE SUPPLY CHAIN: LAW ENFORCEMENT CHALLENGES**

**TUESDAY, SEPTEMBER 12, 2006**

U.S. SENATE,  
COMMITTEE ON FINANCE,  
*Washington, DC.*

The hearing was convened, pursuant to notice, at 10:04 a.m., in room SD-215, Dirksen Senate Office Building, Hon. Charles E. Grassley (chairman of the committee) presiding.

Present: Senators Baucus and Lott.

### **OPENING STATEMENT OF HON. CHARLES E. GRASSLEY, A U.S. SENATOR FROM IOWA, CHAIRMAN, COMMITTEE ON FINANCE**

The CHAIRMAN. Thanks to everybody for coming this morning. And particularly we have had panelists come from Iowa and Montana, which is a long ways away, Montana obviously much further away than Iowa. You have come to share your insights into this growing epidemic of methamphetamine use across the country. We thank you very much.

It is no longer a secret that methamphetamine abuse and the disastrous effects of its manufacture have reached crisis levels in many areas of the country, and I'll quote from a survey by the National Association of Counties, released in July, that found "county law enforcement officials across 44 States reported that methamphetamine remains the number-one drug problem in this country," with 48 percent of their counties reporting that meth is the primary drug problem. This was more than the number who reported cocaine, marijuana, and heroin all combined.

Whereas methamphetamine production and use may once have been geographically limited, this survey, as well as other reports, indicates that it appears to be moving steadily into most of the country.

I am encouraged by Congress's recognition of the need to control this crisis. Earlier this year, Congress passed the Combat Meth Act, which limits sale of meth precursor drugs like pseudoephedrine, and mandates that a log be kept of each sale.

A number of States have already enacted similar restrictions on the availability of meth precursor drugs, and this appears to have made a very major impact on the number of small toxic labs in those States, as well as indicated by the great decrease in the number of local lab seizures in most of those States that have such laws.

It is reasonable to expect a comparable reduction of the number of small toxic labs in all the States when the Federal legislation becomes effective September 30, this month.

The challenges before us, however, are not reduced because of this legislation. They are still very substantial. One of the results of a decrease in small toxic meth labs in those States that have restricted access to precursor products has been, sadly, an increase in the importation of meth by large, sophisticated drug cartels based primarily in Mexico.

These smuggling organizations import a purer version of meth, employ smuggling techniques that are difficult to uncover and track, and are now operating in most parts of the country. They are also engaged in repatriating large amounts of money in their home bases, laundering it through a variety of methods, and often through legitimate business channels.

The Drug Enforcement Administration estimates that the illegal money laundering drug trade is almost \$50 billion a year. It is also believed that a large portion of that money is smuggled out of the country in bulk across our borders.

Under these new circumstances, it is clear that a priority has to be placed on cooperation between the numerous Federal agencies that are engaged in combatting the meth traffic, and, of course, State and local law enforcement agencies that are on the ground in our local communities.

So our hearing today is about this issue. We will be hearing testimony from State and local officials deeply engaged in the effort to close down meth traffickers, and from Federal officials equally deeply engaged in the effort at the Federal level.

We not only want to hear about their efforts at their respective levels and what we in Congress might do to help, but also about their cooperation and what we can do to help that cooperation more effectively.

I would call on Senator Baucus for two reasons now. One, to give any opening comments he has, and also to introduce the two constituents he has here and should introduce.

**OPENING STATEMENT OF HON. MAX BAUCUS,  
A U.S. SENATOR FROM MONTANA**

Senator BAUCUS. Well, thank you very much, Mr. Chairman.

Methamphetamine is a personal fight for me. I have seen it firsthand. I am mentoring a couple of kids in schools who come from dysfunctional families, because a mother or a father is on methamphetamine. It is a big cause for me to stamp out, as much as possible, methamphetamine, certainly in our State of Montana, and in the country.

More than 4 out of 10 Montana teens report that meth is easy to get. I ask for a show of hands at high school assemblies and middle schools, and it is astounding, the number of hands that go up when I ask, can you get meth or do you know somebody who is on meth? It is astoundingly high. Those 4 out of 10 teens report that meth is easy to get, second only to marijuana.

Montana police officers tell me that meth is their number-one law enforcement problem. Methamphetamine is the number-one illegal drug problem for nearly half of the counties in the United

States. Nationwide, nearly 4 in 10 local law enforcement agencies have identified meth as the drug that poses the greatest threat to their area.

In April, this committee held a hearing on the effects of meth on the child welfare system and how it is hurting kids and parents alike. In July, the Senate passed the Improving Outcomes for Children Affected by Meth Act of 2006, and that is a bill which includes provisions to enhance the safety of children affected by meth abuse and addiction.

We reauthorized the Promoting Safe and Stable Families program. That bill targets an available \$40 million—that is an increase—in mandatory funding for meth-related services that include family treatment. Two-thirds of the children who come into the child welfare system in Montana come in because meth has destroyed their families.

We are working to help protect children and protect families from the dangers of meth. Today we will focus on a new angle, that is, how to break the meth supply chain through law enforcement.

We are working on the problem. We now have improved law enforcement techniques and measures to monitor the chemicals that are used to make meth. One example is the Combat Meth Act of 2005, which I am proud to have co-sponsored.

That Act requires that medicines containing pseudoephedrine be relocated behind the counter, and that law establishes a pharmacy log book registry for purchases of these cold products.

In our State of Montana, we passed this law earlier. We passed it in July of 2005. The Yellowstone County Drug Task Force told me that this makes a difference, it is helping. Now it is very difficult for small, mom-and-pop meth producers to obtain the chemicals that can be used to produce meth.

As a result, the meth production in Montana and elsewhere in our country appears to be decreasing. That is not to say that meth demand is decreasing. Demand is still, I am told, about as high as it was before these laws were passed to put the precursors behind the counter.

But production of meth in Mexico, largely in super-labs controlled by drug trafficking organizations, has picked up. The biggest link in the meth supply chain is now at the southwest border. It is now estimated that 80 percent of meth consumed in the United States originates in Mexico and is smuggled into the country.

Today we will examine where to put our resources to most effectively break the meth supply chain. We will hear from Lt. Dan Springer, commander of the Missouri River Drug Task Force, headquartered in Bozeman.

We are proud that you are here, Dan. I am proud of the work the task force is doing. Investigations in Bozeman are critical to stem the tide of national and international drug organizations that are preying on Montanans.

That task force and others around the country need the dollars to fight meth. They need the resources. They need the resources to locate and clean up the labs, and the resources to put criminals making and dealing with meth behind bars where they belong.

I am eager to hear from Lt. Springer about changing meth hot spots and the challenges that law enforcement officers now face.

Carl Venne, welcome. Chairman Venne is the chairman of the Crow Nation in Montana, and an advisory council member of the Montana Meth Project. Chairman Venne will be testifying here today on meth abuse as it particularly affects reservations, and it is devastating.

I look forward to hearing Chairman Venne's perspective on tribal efforts and tribal strategies to combat meth, as well as meth law enforcement resources for reservations.

Education, prevention, and treatment are vital. Our law enforcement officers are stepping up to meet the challenge, and I am doing all I can to help out. I very much look forward to our testimony today.

We have to break the meth supply chain. Let us do so for the health and safety of Montanans, and all Americans. Thank you, all three of you, very, very much for taking the time and effort to come and, jointly together, help us out to solve this problem.

Thank you.

[The prepared statement of Senator Baucus appears in the appendix.]

The CHAIRMAN. Yes. Before I introduce the panel, I will call on Senator Lott.

**OPENING STATEMENT OF HON. TRENT LOTT,  
A U.S. SENATOR FROM MISSISSIPPI**

Senator LOTT. Mr. Chairman, I will be very brief. I just want to thank you for following through on the legislation we passed earlier and to look at the continuing and even growing problem and try to find ways to break this chain of supply.

I think to have the local panel of people dealing with it where it really happens, and then of course the Federal panel, will be extremely interesting and helpful. I am glad we did get the Combat Meth Act done.

I think it is appropriate we follow up and see what is happening, how is it working, how are the local officials dealing with it. So, I am looking forward to reviewing the testimony of the witnesses.

Thank you, Mr. Chairman.

The CHAIRMAN. Yes. And thank you, Senator Lott. Thank you, Senator Baucus. Senator Baucus introduced two of the first panel, so joining Lt. Springer and Chairman Venne is a constituent of mine, a person who has had experience both at the State level and at the local level in the issue of combatting drugs.

Once before we called Sean McCullough before us to testify three or 4 years ago. We enjoyed his testimony then. He has moved up the ladder now to be special agent in charge of the Iowa Division of Narcotics Enforcement, so he is going to share testimony.

We thank you all for coming, and particularly thank you, Sean, for your coming out here from Iowa to testify before me once again.

So we will start with Lt. Springer, then Chairman Venne, then Special Agent McCullough.

Lt. Springer? By the way, if you have longer statements than the 5 minutes that you were allotted, they will be included in the



record as you submit them. So whatever you want to say now, you can say it any way you want to.

Lt. Springer?

**STATEMENT OF LT. DAN SPRINGER, COMMANDER,  
MISSOURI RIVER DRUG TASK FORCE, BOZEMAN, MT**

Lt. SPRINGER. Good morning, Mr. Chairman, Senator Baucus, and members of the committee. It is my great pleasure to be here today.

In 1992, the Missouri River Drug Task Force was established in Montana as a regionally proactive enforcement response designed to aggressively combat the increasing effects of dangerous drug use and distribution occurring within seven specific jurisdictions of concern.

The Missouri River Drug Task Force has nine full-time investigators and covers an area of approximately 17,000 square miles; New Jersey, Connecticut, and Massachusetts combined do not equal the size of our jurisdiction. Financial allocations received from the Byrne Memorial Grant served as the fiscal catalyst behind the jurisdictional alignment.

Operating beneath this collaborative investigation premise, the Missouri River Drug Task Force investigations, in conjunction with Federal, State, and local authorities, have been instrumental in the identification, disruption, and dismantling of drug trafficking organizations.

Narcotics officers across the country are facing multiple challenges regarding methamphetamine. The largest challenge is the fight itself. We are working with decreased funding, limited resources, a growing epidemic, and vicious drug-related crimes.

Forty-two percent of law enforcement agencies recognize methamphetamine as the number-one drug concern within their jurisdiction, and there is no close second. When I started as a patrol deputy 10 years ago, it was extremely rare to find even personal use methamphetamine on the street. Today it is not only common, but it is the norm, and often in larger quantities than personal use.

Meth hit our area like a freight train, and we have seen nothing but a steady increase in the supply and the demand over the last 10 years. If your area has not been hit by this epidemic, be very thankful, but prepare yourselves for something that you have never seen before.

With this increase in drug activity, there has been an increase in crime. However, the primary funding source of the Missouri River Drug Task Force, the Byrne Memorial Grant, has decreased by 62 percent over the past 5 years.

Due to significant cuts in Federal funding, the number of investigators needed to combat this epidemic has stagnated to a point where we are just maintaining rather than conducting proactive, hard-hitting investigations.

The advantage of the Byrne Memorial Grant has been the ability to use the money in multiple ways. The Byrne Grant allows us to use the money for salaries, overtime, vehicles, drug buy money, informant payments, and many other areas.

I would ask for a consistent and stable form of funding that does not keep agencies hanging in the balance from year to year. A

funding source of this nature would allow for extended planning and extended expectations.

The Montana State legislature has recently passed precursor laws, limiting access to items used in the making of methamphetamine. These laws have apparently been highly effective, and we have seen a dramatic decrease in the number of mom-and-pop meth labs. However, we have seen a dramatic increase in the importation of methamphetamine.

The meth imported to Montana is primarily coming from Washington, Oregon, California, Utah, and Idaho, and eventually Mexico. The super-labs of Mexico supply the majority of the meth for the United States. The factories that make pseudoephedrine are now shipping pseudoephedrine to Mexico in extremely large quantities.

Directly linking meth to other crimes is not easy to do. Very few defendants admit to committing the crime, let alone committing that crime while using meth, or in an attempt to purchase meth. One thing we do know is, meth is no longer the cheap drug used only by those who cannot afford other drugs.

In our area, meth is currently twice the price of cocaine. With the increase in price and the addictive nature of this drug, the pursuit of methamphetamine has increasingly become a criminal motive for violent and weapons-related criminal acts.

Through my very small window of the world, I see individuals getting killed over drugs. I see people losing family members to drugs. I see family members and friends being torn apart by these drugs. But, most importantly, I see the productive citizens of our communities becoming victims of crime due to drugs, and primarily methamphetamine.

Money alone cannot solve the methamphetamine issue in Montana. However, without a sustainable source of financial support, the success and momentum of these historically complex and effective efforts will inevitably falter.

Local enforcement efforts are arguably the first and last line of defense in the war on methamphetamine. And, while our communities cannot afford to lose the battle, the Missouri River Drug Task Force cannot afford to wage the war alone. Thank you for your time.

The CHAIRMAN. Thank you, Lt. Springer.

[The prepared statement of Lt. Springer appears in the appendix.]

The CHAIRMAN. Now, Chairman Venne?

**STATEMENT OF CARL VENNE, CROW TRIBAL CHAIRMAN; TRIBAL LEADERS COUNCIL CHAIRMAN; AND ADVISORY MEMBER, MONTANA METH PROJECT, CROW AGENCY, MT**

Mr. VENNE. Mr. Chairman, good morning. Honorable committee members, it is an honor for me to provide testimony today on very important issues for the Crow people, and for all Native American populations. I thank you for this opportunity.

The Crow reservation is about 2.5 million acres, about the size of Rhode Island. It is one of the poorest counties in the whole United States, according to the last census. Meth use on our reservation is at epidemic stages, not only on my reservation, but all

the reservations in Montana. I am also the chairman of the Tribal Leaders Council, and we have discussed this quite a bit.

One of the biggest problems we have in controlling meth is, we have three different jurisdictions on Indian reservations. We have our local BIA, the FBI, and the county. None of them are working together to fight this problem.

If you look at the whole picture and what is going on in America today and how we are fighting the war in Iraq, you know the bullets in Iraq do not say, you are Indian or you are a non-Indian. That is the way I look at law enforcement in Indian country. We are all constituents of you Senators from America. We are all constituents of the government of the State of Montana.

Why do we not fight this together with our resources instead of saying, because this is a reservation line we cannot cross it, we do not have jurisdiction? No longer can we act that way. We are all Americans in fighting this, I call it the devil.

What it is doing to our younger kids today—you know, there is an increase of suicides, increase in major crimes. But yet, when I approach the DEA or the FBI, they say, well, we want to get the big guys, so they do not look at what is going on within the reservations. We should be able to do that, not saying, because I am the FBI, I go for the big guys in Mexico and the cartels and stuff. What is their jurisdiction in Indian tribes? What are the jurisdictions of the local county sheriffs when they should be doing something? We are taxpayers of that county, so they need to provide services to our tribe. Those are the kinds of things Indian tribes are up against today.

We talk about meth labs. We had a meth lab. You know, we have a housing shortage. When you go in and knock down a house, how do we replace it? The insurance will not cover that type of stuff. There are a lot of things.

Take the social problems that it is creating. What type of prevention programs do we have in our local schools? None. What control do we have? None. We need to work together by building bridges, not burning them, between communities and between races.

I think those are the types of things I am looking at as a tribal leader in Indian country and what we are faced with today. It is very important that we realize one thing: we are all Americans. We need to fight everything together. That is how important it is to me and my people.

My people live in poverty. Our annual income is only \$6,000 to \$7,000 a year. We need to do something today. No longer can I stand by as an Indian leader and not talk about these things. I need to let you know: you need to help me. We need to come together as a country. Too much has divided us because of politics, but today I beg you people to help us in Indian country. Thank you.

The CHAIRMAN. Thank you, Chairman Venne.

[The prepared statement of Mr. Venne appears in the appendix.]

The CHAIRMAN. Now, Special Agent McCullough?

**STATEMENT OF SEAN McCULLOUGH, SPECIAL AGENT IN CHARGE, IOWA DIVISION OF NARCOTICS ENFORCEMENT, DES MOINES, IA**

Mr. McCULLOUGH. Mr. Chairman, committee members, I have been involved in drug enforcement in Iowa on the State level for the past 17 years. Since the early 1990s, Iowa has been plagued by methamphetamine. Methamphetamine could be found in Iowa before the 1990s, but not in large quantities like we had after 1990.

The majority of methamphetamine at that time was imported from Mexico and the southeast region of the United States. The people in Iowa, those involved in methamphetamine, soon found that it was easy to manufacture methamphetamine on their own, and then they did not have to deal with the dangers of the organized crime groups that were involved in the importation of methamphetamine.

We then saw a rise in meth labs in Iowa. Processing these labs was very time-consuming and expensive for law enforcement. Then law enforcement found themselves fighting methamphetamine on two fronts, the methamphetamine manufacturing in clandestine labs, and the meth imported into our State.

In 1993, my agency, the Division of Narcotics Enforcement, or DNE, seized two methamphetamine labs. Each year following 1993, meth labs in Iowa grew to epidemic proportions. By the year 2004, Iowa law enforcement officials seized over 1,500 meth labs in Iowa.

In 2004, the DEA recorded that Iowa had the third highest number of methamphetamine laboratories. Approximately 97 percent of these meth labs seized in Iowa produced only 1-gram to 1- or 2-ounce quantities of methamphetamine.

The Iowa law enforcement agencies found ourselves spending 80 percent of our resources on 20 percent of the meth problem. We then wanted to reduce the number of meth labs in our State so we could concentrate our efforts and resources towards the importation of meth into our State.

In May of 2005, Iowa passed one of the Nation's strongest non-prescription pseudoephedrine laws. This law restricted the sale of pseudoephedrine, which is a main ingredient in the illegal manufacture of methamphetamine. The law had an immediate and significant impact on the methamphetamine manufacturing problem in Iowa.

Law enforcement's purpose behind the law was to reduce the number of meth labs which were taking up the resources, allowing the agencies to dedicate their efforts towards reducing the amount of imported meth brought in by these organized crime groups. Since the law was enacted in May of last year, methamphetamine laboratories in Iowa have declined 72 percent.

In 2004, the University of Iowa hospitals and clinics spent approximately \$2.7 million to treat patients with methamphetamine-related injuries. In 2005, after Iowa passed the pseudoephedrine law, University of Iowa hospitals and clinics spent a little over \$200,000 on methamphetamine laboratory-related injuries. This equals a savings of approximately \$2.5 million.

Iowa's pseudoephedrine law has also caused a reduction in total methamphetamine laboratory costs, which involve the costs of the personnel, salaries, clean-up, and so forth. After the law was

passed, costs dropped to approximately \$1.5 million, and before that it was \$2.5 million. These figures equal a savings of a little over \$1 million.

Even though Iowa's clandestine methamphetamine laboratory seizures have declined, drug trafficking organizations continue to dominate the State's illicit trade. Most of the methamphetamine in Iowa is coming across the southwest border from Mexico.

Along with increased seizures of methamphetamine in Iowa from imported meth, the drug purity rate has also increased. This pure form of methamphetamine is also known as crystal methamphetamine. The purity rate in Iowa in 2002 was approximately 27 percent. In 2004, it rose to approximately 54 percent pure methamphetamine.

Law enforcement in Iowa continues to work proactively against those individuals and groups involved in trafficking methamphetamine into Iowa. I think Iowa is lucky in that all the agencies get along together, local, State, and Federal. We all work together to combat the problem, and I think that is what is important and key to addressing the methamphetamine problem.

The methamphetamine problem is transient, it is moving. It is spreading across our country, and the key is that we all work together to fight the problem and continue the dialogue that we share here today to find answers. Thank you.

The CHAIRMAN. Yes. Thank you, Sean.

[The prepared statement of Mr. McCullough appears in the appendix.]

The CHAIRMAN. I think I am going to lead in with my first question where you left off, because it is my guess that most drug investigations begin at the local level with the arrest or seizure of drugs.

So this cooperation that you referred to in Iowa—I am going to ask several questions, but they all lead to the same general discussion. So, rather than going question by question, I will just lay these out and let you deal with them. Maybe Lt. Springer would want to join in, too, from his experience.

Explain how meth cases you initiate are adopted at the Federal level or with Federal agencies. How and when, for instance, do DEA and others get involved? Do you know what criteria they use, and why, to get involved?

What is your involvement at your level after an initial arrest or seizure? More specifically, do you continue to be involved after the case is taken up by Federal officials, and do you get feedback on cases that are adopted by Federal law enforcement?

Mr. MCCULLOUGH. In Iowa, most of the cases are initiated by my agency or local law enforcement agencies' drug task forces that work together. We usually initiate the investigation, work up the case, and, if it looks like it has a nexus into the Federal system—and those variables are the criminal history of the people involved in trafficking the drugs, the drug quantities, if there is an interstate nexus to the case—if some of those factors exist, we then contact usually the Drug Enforcement Administration, which we have a very good working relationship with.

I think their issue is, there are just not very many DEA agents in Iowa, so their resources are limited. Usually we work the investigation up, contact the DEA to see if they are interested in work-

ing with us on the investigation, and then we go ahead and work it. We do have several—in fact, I think the figure is seven—DNE agents assigned to DEA task forces throughout the State also, which helps.

The CHAIRMAN. So you are involved pretty much throughout the entire case then, but mostly because of the lack of the number of Federal people to help you to carry it on.

Mr. McCULLOUGH. Yes. DEA has limited resources in Iowa, not enough agents.

The CHAIRMAN. Sure.

Mr. McCULLOUGH. We usually work up the cases. Also, at DNE we are fortunate that we have agents spread throughout the State, in both the metro areas and the rural areas, and the DEA agents are housed out of the—

The CHAIRMAN. Have you had a different experience, Lt. Springer?

Lt. SPRINGER. It is a fairly similar experience. It is kind of like throwing darts. You start on the outside, and eventually you will hit a bulls-eye and take a case beyond the local or State level and up into the Federal level.

What we see, though, is we do not have a DEA agent within 160 miles of our task force, so what will happen with our cases, in starting the case, you never know if it is going to go Federal until you are kind of into the case a little ways.

At some point it looks like it may be going, so you call the DEA—for us it is down in Billings—and get their authorization. They have the title 21 authority that we do not have to take a case to a Federal level. We get their, kind of, permission, they sort of sign off on it, at which point we run the case. So, we basically become the Federal agent running the case.

At some point when we finish the case, if it gets outside of our State or goes down to California, we will certainly pass that off to an agent somewhere else. But if it stays within our State or somewhere nearby, we will continue with it. At some point, we will call the DEA agent and they will then run it up through the U.S. Attorney's Office.

The problem is you will inevitably lose something in the translation because they are not there from the ground level and all the way through the case; they are getting a briefing of the case, at which point then they are trying to explain it to the Attorney's Office. So, it is difficult that way.

We have had great relationships with the DEA. Most recently, the IRS—Senator Baucus has helped us with that—has assigned some agents to help us when need be, and currently they are helping us right now.

The CHAIRMAN. By implication, I think you answered my next concern. That is if, as a member of a task force, you are treated as an equal partner. Do you have access to the same information and intelligence that the Federal agency does? I assume the answer to that is yes, because you supply that information.

Lt. SPRINGER. If you ask, yes. We supply the information when it is our case. Now, there are times where cases are coming—

The CHAIRMAN. Well then, if it comes from the top down, are you treated equally with access to all the information that the Federal agency has?

Lt. SPRINGER. Most of the time. It depends on the relationship between the agent and the investigators. We have very good relationships, so they will end up talking to each other all the time. If that relationship is not there, then there may be an issue.

The CHAIRMAN. Senator Baucus?

Senator BAUCUS. Thank you, Mr. Chairman.

Dan, what do you need to do an even better job? You talked about Byrne money being cut, for example. I know we had to struggle with HIDTA money and other resources. But just the basic question. When you and your colleagues get together and say, this is what we really need if we are going to get these guys, what do you need?

Lt. SPRINGER. Bodies. The only way work gets done is by people beating the street, and that takes money, and getting money that can be used in multiple ways. A lot of times, like HIDTA, money and things are very specific for training and overtime and those issues.

But salaries, support staff salaries, drug buy money, all these things—which have been beneficial with the Byrne Grant—that is what has been the most effective for us.

The other thing we need is a Federal agent locally, a DEA agent locally. Bozeman, obviously, has become a growing town. Helena is becoming a growing town. Right now, Bozeman has no title 21 authority outside of two FBI agents, but they are working mostly homeland security at this point.

So I would say, at this point, we need bodies. As bodies increase, then equipment becomes more of an issue, and those things. But we need the people on the street, at the local level.

Senator BAUCUS. All right.

Now, just being reasonable here, what percent increase in resources will this Byrne Memorial money, or whatever, without asking for the moon, will get the job done?

Lt. SPRINGER. The decrease of 62 percent in the last 5 years, even getting a third of that back would help us add another investigator to our task force, or two. I certainly understand there are fiscal problems everywhere and everyone has their own issues, but getting back to where we were would be a significant help.

We have been backtracking for the last 5 years. If we can just kind of get us back up even to where we were a few years ago, it would be beneficial, 20 percent, 30 percent.

Senator BAUCUS. And how many Federal personnel are there, whether DEA, FBI, or whatnot, available in Montana so you can federalize the case?

Lt. SPRINGER. I am sorry. How many Federal agents?

Senator BAUCUS. How many Federal agents are there in Montana?

Lt. SPRINGER. I do not know the total number, but there is ICE, there is ATF, there is DEA.

Senator BAUCUS. But are they responsible for and assigned to take drug cases?

Lt. SPRINGER. I believe there are probably six to eight DEA agents in the State of Montana. I may be off on those numbers. I know there are six out of Billings, and I believe there are a couple up in Great Falls, and maybe in Missoula. Now, like I said, for the most part we deal strictly with Billings.

Senator BAUCUS. Now, how important is it to federalize? I ask because, when I talk to some people at home, they tell me that some of these pushers know that, if it is a State system only, they will get a deferred sentence or they will not get put in jail, there is not enough room in the jails, and so forth.

But if it is federalized, then the accused starts to get serious and starts to cooperate a little more, particularly in trying to go up the chain and trying to find the next higher level of people.

Lt. SPRINGER. The criminals do not like being charged Federally, and they know that they will be going to prison. They spend, I think, 95 percent of their sentence, versus quite a bit less at the State system.

If they know they are going to the State system, chances are they are not going to help us. But the Federal system, they know they are going away for a long time and they will help us significantly.

Senator BAUCUS. Is that true in Iowa, too, Mr. McCullough?

Mr. MCCULLOUGH. Yes, it is. The drug traffickers do not want the case to go to the Federal level. Usually they receive a lot more time Federally than they do in State court. I believe Iowa ranks 43rd, too, in the number of Federal agents.

Senator BAUCUS. All right.

Chairman Venne, the unique problems of the reservation, it seemed, listening to you, relate to inadequate coordination among law enforcement agencies. To what degree is that the problem? To what degree is it insufficient resources? Just generally, again, the same question I asked Lt. Springer. What do we need to do on reservations? What do we need?

Mr. VENNE. Well, if you look at our reservation, it is about the size of Rhode Island, and some nights there is only one officer patrolling the whole reservation. The Bureau of Indian Affairs is the one who handles all law enforcement on the reservation.

We have a total amount of 14 officers and 2 investigators. That is probably half of what they need. I looked at some statistics where they are supposed to have 23 officers and four investigators, when they cannot meet the funding of it. Then probably they need a lot of training, surveillance equipment, prevention efforts, and alternative sentencing.

I think the part you are talking about, the different sentences, that is very important. They need to be harsh. They need to be going to Federal court instead of State court.

Senator BAUCUS. So what does it take, to use this awful word, to federalize on reservations? Does BIA involvement necessarily—

Mr. VENNE. Mostly all our drug cases go to the BIA, then on up to Federal court or some local things we are taking care of.

Senator BAUCUS. All right.

Mr. VENNE. So the biggest thing is, we started a Safe Trails Task Force with DEA, FBI, and the Colstrip Sheriff's Department to put a team together with both the northern Cheyenne and the Crow



Tribe, putting a team together and starting to fight this meth problem that we have.

Senator BAUCUS. One more question, Mr. Chairman.

If there are insufficient resources in law enforcement personnel, say, in our States, Montana, Iowa, or other rural States, how well is that known among drug pushers? Do they, therefore, say, hey, there is not a lot of FBI, not a lot of Federals in Montana someplace, so that is where we are going to go? I mean, is that an issue or not an issue? Anybody can address that.

Mr. McCULLOUGH. I do not think they are cognizant of it. When I talk to some of these people, they mainly say, hey, I just thought I was never going to get caught. I just do not think they think about it. They are involved in the methamphetamine trade, making money. They just think it is never going to happen to them. I do not think they actually sit down and think about the Federal issue.

Senator BAUCUS. Lt. Springer?

Lt. SPRINGER. What they like to do, in Montana they know they can make a lot of money. They are doubling their money out of Spokane, buying an ounce for half the price that they can sell it for in Montana. So that is what is driving them into Montana: the price, the demand.

Senator BAUCUS. I was stunned to hear you say it was twice the cost of cocaine. That must be a change.

Lt. SPRINGER. It is a change. We did not see cocaine a year ago. We are starting to see quite a bit more cocaine. The price was so much lower, I think that it ended up as kind of a simple economics course for them.

Senator BAUCUS. All right.

But you need resources. You need dollars, you need people, basically.

Lt. SPRINGER. We need bodies. Yes, sir.

Senator BAUCUS. Both State and Federal. Thank you very much.

Mr. Chairman, I think it is an outrage. It is an outrage that Byrne Memorial funds have been cut as much as they have. Those grants go a long, long ways to fight. Money for drug law enforcement makes a huge difference, and we just have to find some way to do that.

The CHAIRMAN. And I hear that from every level of law enforcement in my State as well. Yes.

Sean, I assume that your agents are trained to investigate and gather information with a goal of breaking down larger criminal organizations other than just local users or dealers and trying to move that information to getting people higher up in the chain.

I assume that your agents then collect data and interview suspects, keeping in mind they can get higher-ups in the drug trafficking. If you collect such intelligence, and I assume you do, what happens to it?

Mr. McCULLOUGH. That goes to our Intelligence Bureau for the Iowa Department of Public Safety. They house all the intelligence information for DPS, and then they keep that in Des Moines and they try to forward that on to other task forces around the State.

The CHAIRMAN. If you just do it within the State of Iowa, though, that information does not move to Federal officials to make use of it?

Mr. MCCULLOUGH. It does. One of the vehicles is through HIDTA. We send our intelligence information down to our HIDTA, which is headquartered out of Kansas City, then that information gets funneled out.

The CHAIRMAN. And do you feel that it is effectively used, the information that you send?

Mr. MCCULLOUGH. I think so. It is getting better. We had a meeting last week about this issue in Kansas City at the HIDTA office, about intelligence sharing and putting more information out to other areas of the Nation. I think it is working and it is getting better.

To go back to something we talked about earlier, with DEA, we do know a lot of their intelligence information from our people assigned to the DEA task forces. So, information flow is both ways, from our agency and from DEA, through our designated task force officers at the DEA.

The CHAIRMAN. And Chairman Venne, you spoke about the complications due to sovereignty. Do you know if there have been efforts, other than the August 22, 2006 agreement that you spoke about, either through formal Memoranda of Understanding or informal agreements through which tribes work together with non-tribal law enforcement to combat the meth problem occurring in tribal communities?

Mr. VENNE. I do not know if there are any other ones, but that is the only one in Montana right now.

The CHAIRMAN. And it is obviously too soon to know if it is working.

Mr. VENNE. Yes, it is too soon.

The CHAIRMAN. Chairman Venne, you spoke about the lack of exchange of information or intelligence. Do you have suggestions of what can be done to help improve that situation?

Mr. VENNE. Yes, I do. All of us have to realize, usually they talk about, well, we do not have jurisdiction here or we do not have jurisdiction there. All it takes is people to step up to the plate, create agreements between agencies or governments to handle this problem. To me, that is fairly simple. It is a matter of people just stepping up to the plate, wanting to do something.

The CHAIRMAN. So one of your main criticisms is that there is a lack of willingness to do that?

Mr. VENNE. Yes.

The CHAIRMAN. And is that something that you sense all over the country, or just between law enforcement agencies and tribes?

Mr. VENNE. It is between, probably, law enforcement agencies, the different law enforcement agencies we have in the State. People like to protect their own little areas and be the boss of that.

The CHAIRMAN. Yes. We run into that all the time.

Senator BAUCUS. Yes. It never happens here.

Mr. VENNE. That is the problem.

The CHAIRMAN. Yes. All right.

Well, I am done asking questions. We did not have all of our members here today, so you may get questions from other members for answer in writing. We would appreciate your cooperation on that. Thank you all.

Senator BAUCUS. One more, Mr. Chairman.

The CHAIRMAN. Sure. You can have more time.

Senator BAUCUS. Chairman Venne, can you tell us a little bit about the Seven Hills Healing Center, and how is that working?

Mr. VENNE. That is working excellent. What we did was, a year and a half ago, in 1 week, we had six deaths, all related to alcohol and drug use. I finally said, we have to do something. The tribe owns a ranch of about 28,000 acres out by the mountains, so we developed this program.

It is a culture program, in what we, as Indians, believe in, the different types of religious practices we do. We bring our people and show them, to let them appreciate who they are and where they are from, and to educate them in the Crow way of life. We have been doing that for the past year and a half. We have been very successful. We probably have a 70-percent success rate out of that. We take women and men. We alternate them, though.

It is not that great of a building and ranch stuff, but we have been doing a lot of fixing up on our own and trying to get that going, bringing them back to what we believe in as people. It is working out pretty well, Senator.

Senator BAUCUS. This is kind of a wild idea, it just occurred to me. There is a warrior culture in Native Americans, that is, when a warrior falls, the warrior is honored and a lot of tribal songs are sung to warriors.

Mr. VENNE. Sure.

Senator BAUCUS. Fallen warriors. The thought is, if somehow we could convert that so warriors are also fighting meth like they are fighting other armies, fighting other enemies. I do not know if that is possible or if it makes any sense, but it was just a thought that occurred to me.

Mr. VENNE. We have been attacking it just like that. We go on long marches and walks with our young kids in school, starting prevention-type projects in our schools against meth. They need to know that we support them as an administration and we do care for them and participate in what they do.

Senator BAUCUS. What works best in preventing or lowering teenaged suicides? How much of that is meth-related, dysfunctional families, and whatnot?

Mr. VENNE. Usually on my reservation there are no suicides. In the last year, we have had five suicides because of meth. A prime example is, three of them walked straight into a moving train. Things like that are happening.

But I think it takes the community working together with everybody to really put a stop to it, and prevention-type programs. I think the community is the answer.

Senator BAUCUS. All right. Thank you very much. I deeply appreciate the time you have taken to come here and help out. It means a lot to all of us. Thank you.

The CHAIRMAN. I thank you as well. If you want to stay, you are welcome to stay.

I would call the second panel now. I am going to introduce the second panel as they come, so please come, all of you.

We have Joseph T. Rannazzisi, Deputy Assistant Administrator, Office of Diversion Control, Drug Enforcement Administration; Mr. Robert Patton, Chief, Mexico-Central American Section, Office of

Financial Operations, DEA. Mr. Patton will not make a statement, but is here to answer any questions that may arise about DEA's financial investigations.

We have Gregory Passic, Director of the Office of Drug Interdiction, U.S. Customs and Border Protection; and, finally, Mr. André Martin, Director, Operations Policy and Support, of the IRS Criminal Investigation Division.

I have introduced you in the same order that I will call on you to testify. So we will wait until you get ready, Mr. Rannazzisi, then we will start with you.

Also, for all of you, your statements, if they are longer than your 5 minutes, will be included in the record as you submit them.

**STATEMENT OF JOSEPH T. RANNAZZISI, DEPUTY ASSISTANT ADMINISTRATOR, OFFICE OF DIVERSION CONTROL, DRUG ENFORCEMENT ADMINISTRATION, WASHINGTON, DC; ACCOMPANIED BY ROBERT T. PATTON, SECTION CHIEF, MEXICO-CENTRAL AMERICA SECTION, OFFICE OF FINANCIAL OPERATIONS, DRUG ENFORCEMENT ADMINISTRATION, ARLINGTON, VA**

Mr. RANNAZZISI. Thank you, sir, and good morning. Chairman Grassley, Ranking Member Baucus, distinguished members of the committee, on behalf of DEA's Administrator, Karen P. Tandy, thank you for the opportunity to testify here today regarding DEA's efforts to break the methamphetamine supply chain.

I am joined by Mr. Robert Patton of DEA's Office of Financial Investigations, who will respond to any questions regarding our financial investigations related to methamphetamine.

Methamphetamine poses a significant threat to the United States. Through our law enforcement partnerships across the country and around the world, DEA is actively engaged in attacking criminal organizations responsible for trafficking methamphetamine, the precursors utilized in its production, and their illicit proceeds.

DEA's efforts to address the methamphetamine drug problem have been ongoing for decades. Methamphetamine production requires no specialized skill or training, and its recipes are readily available on the Internet. Its precursor chemicals also have been historically easy to obtain and inexpensive to purchase.

The unique nature of this synthetic drug warrants a targeted response. In 2006, the Administration released the Synthetic Drug Strategy, which provides a framework for DEA and contributing agencies to continue ongoing efforts and to chart new milestones in achieving domestic and international progress against methamphetamine and other synthetic drugs.

Methamphetamine consumed in the U.S. originates from two principal sources. Most methamphetamine found in the U.S. is produced by Mexico- or California-based traffickers whose organizations control super-labs. Current data suggest that roughly 80 percent of the methamphetamine consumed in the U.S. comes from these large labs, which are increasingly found in Mexico.

When we talk about super-labs, those are labs that produce approximately 10 pounds or more of methamphetamine in a 24-hour production cycle.

The second source of methamphetamine is small toxic labs, or STLs, which produce relatively small amounts of methamphetamine and are generally not affiliated with major trafficking organizations. It is estimated that these labs are responsible for approximately 20 percent of the methamphetamine consumed in the United States.

In response, DEA is taking its fight to the organizations responsible for this menace. We have initiated successful investigations that have disrupted and dismantled significant methamphetamine trafficking organizations and have also taken an active role in fighting the diversion of ephedrine and pseudoephedrine through both enforcement operations and international agreements.

It is noteworthy that law enforcement efforts have been aided by both State and Federal legislation. As you well know, the Combat Methamphetamine Epidemic Act of 2005 has provided additional tools to enhance our efforts, both domestically and internationally.

DEA's efforts, coupled with these legislative tools, have already resulted in a substantial reduction in the amount of precursor chemicals entering the United States. DEA has also stepped up its efforts to focus on the financial side of drug trafficking organizations.

Our financial enforcement strategy is mission-driven, focusing on the flow of money back to international sources of drug supply. There is little doubt that the sole reason people sell drugs is for financial gain; therefore, attacking the financial infrastructures of traffickers plays a key role in our enforcement strategy.

Our objective is to identify and halt the flow of drug proceeds by focusing on bulk currency smuggling and the remission of drug money through U.S. wire transfers. DEA works closely with our other law enforcement counterparts to address these initiatives. DEA has mandated that all drug investigations include a financial investigation component, which our financial investigations teams help carry out.

A key element in combatting methamphetamine is international cooperation, particularly in the area of precursor chemical control. DEA and DOJ have facilitated and played a leadership role in several recent meetings of the international community.

These meetings, such as the National Methamphetamine Chemical Initiative Strategy Conference, where the Attorney General announced several new anti-methamphetamine initiatives, have helped increase awareness around the world and resulted in agreements to monitor and track key precursor chemicals. Several nations, most notably Mexico, also have taken independent steps to control methamphetamine precursors.

DEA will continue to fight methamphetamine on all fronts by targeting both the trafficking organizations and the financial proceeds they generate. We are fully committed to meeting this international threat by working in a cooperative effort with other agencies and nations.

Chairman Grassley, Ranking Member Baucus, and members, I thank you again for this opportunity to testify. I would be happy to answer any questions you may have. Thank you.

The CHAIRMAN. Thank you.

[The prepared statement of Mr. Rannazzisi appears in the appendix.]

The CHAIRMAN. Now, Mr. Passic?

**STATEMENT OF GREGORY PASSIC, DIRECTOR, OFFICE OF DRUG INTERDICTION, U.S. CUSTOMS AND BORDER PROTECTION, WASHINGTON, DC**

Mr. PASSIC. Chairman Grassley and Ranking Member Baucus, thank you for your personal attention to this. I know, by talking to your staffs, you really want to do something about this problem.

I sense that this is a very busy committee, and for you to take this on, I laud you for your efforts. I hope that what we can present today will move in the direction of your challenge.

I could not help but be moved by the prior panel about how devastating methamphetamine is in their communities. In my humble opinion this is a weapon of mass destruction introduced from Mexican criminal organizations into this country, and as such demands that we in Customs and Border Protection pay attention to it and team up with the members sitting here at this table to do something about it.

We were looking at two specific areas that we think we can challenge and meet that contribution that you are looking for. The first one is along the border, along the line. The southwest border is responsible for 80 percent of the meth and other drugs that enter this country. It is a tough challenge. We will be adding 6,000 to 8,000 Border Patrol Agents along that border.

As the Border Patrol Agents and National Guard are deployed, we have noticed a shift into the ports of entry, so we cannot ignore that. We have to have better technology. We have to have an increased effort also at vehicles smuggling traps and individuals entering the country through the ports.

To do that, we need DEA's help. We have to not only seize more meth on its way to the U.S. market, but we have to make smart seizures. A seizure of outbound currency or drugs coming in is significant in that we might deny funds to trafficking groups and meth from hitting the street, but more importantly, we feel that is a starting point for an investigation. We feel we need to couple with DEA's active meth investigations, if they share their data with us—and there is every indication they are doing that.

We have a team coming in tomorrow from Los Angeles, DEA agents and analysts, who are going to be meeting with our people to talk about precursor controls directly to include sharing our systems with them. And if we can couple the gears in the government machinery, we go way beyond cooperation—this thing requires collaboration.

It requires teaming in a fashion that we have never done before. As other members of your panel mentioned earlier, we can do a better job of coordinating and teaming that effort.

Smart interdiction also allows us to provide to DEA evidence in drug conspiracies. If they have wire taps, informants, or undercover operations running into meth groups and we can make a seizure from one of those couriers, that is added value to DEA's attempts to arrest and prosecute major traffickers. It also provides

leads that go back into Mexico, where we have to have impact on the Mexican organizations that are the root of the problem.

The second area we in Customs and Border Protection are concentrating on is the control of precursors. We are working very closely with DEA to identify companies, brokers, and transshippers that are sending ephedrine and pseudoephedrine to and through the United States, primarily to those laboratories mentioned before in Mexico, the super-labs.

This challenge also involves engaging the Mexican authorities, and we laud DEA's efforts to build that task force down in Mexico, because we feel, until we are able to impact the super-labs and the principals that are engaged in those, that our impact will be somewhat limited.

We also feel that by denying precursors to the super-labs, that we can impact their ability to produce high-quality methamphetamine that is introduced into the United States now.

My written statement actually goes into specifics of the game plan. I also met with your staffs. We are looking forward to working with them to continue to be challenged and really do something about this problem. Thank you for the opportunity of being here.

The CHAIRMAN. Thank you.

[The prepared statement of Mr. Passic appears in the appendix.]

The CHAIRMAN. Now, Mr. Martin?

Mr. MARTIN. Good morning.

The CHAIRMAN. Good morning.

**STATEMENT OF C. ANDRÉ MARTIN, DIRECTOR, OPERATIONS  
POLICY AND SUPPORT, IRS CRIMINAL INVESTIGATION,  
WASHINGTON, DC**

Mr. MARTIN. Chairman Grassley, Ranking Member Baucus, and members of the committee, I appreciate the opportunity to appear before you today to discuss the Internal Revenue Service Criminal Investigation Division's role in combatting money laundering and narcotics trafficking.

These are serious national problems that erode our economy and destroy thousands of lives each year. The mission of the Internal Revenue Service Criminal Investigation Division is to serve the American public by investigating potential criminal violations of the Internal Revenue Code and related financial crimes in a manner that fosters confidence in the tax system, in compliance with the law.

This includes the investigation of complex tax and money laundering cases, covering a broad range of crimes, from tax evasions, to corporate fraud, to sophisticated narcotics trafficking organizations.

Our approximately 2,800 criminal investigators are in demand throughout the law enforcement community because of our unique financial investigative skills. The Attorney General recently communicated to IRS Commissioner Everson, "The agents of the Internal Revenue Service Criminal Investigation are among the most important resources we can bring to bear in connection with the complex financial investigations that are critical to our success."

Our core mission at IRS is tax administration. Our country depends on a sound tax system. This fact was reinforced by Judge

William Webster, who was commissioned by the IRS in response to concerns raised by this committee in 1998, to direct an independent review of IRS CI.

Judge Webster concluded that we suffered from a mission drift away from investigating core mission tax cases. He specifically attributed demands placed on CI by other law enforcement entities to participate in narcotics investigations as a primary cause of the drift away from the investigation of criminal violations of the Internal Revenue Code and those financial crimes that have a nexus to tax enforcement.

He correctly pointed out that IRS CI must investigate tax violations arising out of title 26 of the U.S. Code because no other Federal law enforcement agency has the authority or responsibility, or similar mission.

At the same time that CI has sharpened its focus on tax investigations, we have carefully monitored our narcotics work to ensure we are focusing our scarce resources on those narcotics cases that bring the most value to the government's counter-drug efforts. With the tax gap estimated at over \$300 billion, CI's focus on tax investigations must remain our top priority.

As part of the larger law enforcement community, we recognize that IRS CI's role is broader than tax administration. We contribute our efforts in many areas, including money laundering, counter-terrorism, and public corruption.

Tracing the money is often the key to conviction and to disgorging assets. In fact, we view money laundering violations as tax evasion in progress because the offenders are essentially trying to hide their dirty money from the government.

We recognize that drug trafficking organizations are motivated by greed, money, and assets. Therefore, the objective of our narcotics program is to dismantle and/or disrupt the highest level narcotics organizations, as designated by the Department of Justice, through the Organized Crime Drug Enforcement Task Force program, or OCDETF.

Some of our OCDETF efforts include cases such as Operation North Star, Operation Brain Drain, Operation Snow Globe, and Operation Ice Storm.

While our narcotics program does not focus on specific types of illegal drugs, it does conform to the qualitative framework established by the OCDETF program. It places emphasis on conducting financial investigations of each case, with an aim toward the elimination of the drug organization's infrastructure and permanently removing their profits.

In conclusion, regardless of the type of drug threat, whether it's methamphetamine, cocaine, heroin, or marijuana, IRS CI will continue to support this effort by strategically targeting and dismantling the financial infrastructure of the most significant drug trafficking organizations.

The women and men of IRS CI carry on an 87-year tradition of solving financial crimes by following the money trail, and we do that in a spirit of cooperation with all of our law enforcement partners.



Mr. Chairman, I thank you for this opportunity to appear before this distinguished committee, and I would be happy to answer any questions you and Senator Baucus may have.

[The prepared statement of Mr. Martin appears in the appendix.]

The CHAIRMAN. All right. To any and all of you on this first question. We get reports about increasing amounts of drug seizures and we get other reports about decreasing numbers, not going up, so we do not really know where we are.

So could you clarify whether seizures of meth at the southwest border are increasing or decreasing? Could you explain why there may be differing reports about seizures at the border? Lastly, is there an effort being made to have a uniform standard of reporting or collecting this information?

Mr. PASSIC. We have noticed an increase of 11 percent at the ports of entry, and a slight decrease, actually, between the ports of entry with our Border Patrol people.

The reason that we have two different statistics or numbers is that, the old system had a threshold on the amount of drugs that could be issued a Federal identification number by EPIC, and if you did not meet the threshold, your smaller seizures did not get into the system. That has been rectified. Our people now can put in all of our seizures along the border, regardless of the amount.

The other thing is, DEA was collecting seizure data from State and local task forces along the border, in other words, meth shipments that had already made it across our line, so that made the numbers different.

But hopefully our people are being trained how to do input into the new EPIC system out there, and the next time we are up here, hopefully we can say that thing has been fixed.

The CHAIRMAN. Does anybody else want to add to that?

Mr. RANNAZZISI. If I may just add, sir, I think we have learned our lesson from the clandestine lab seizure system. A couple of years ago, people were looking at the lab seizure system and they noticed a dramatic drop. That was not a drop because there was a lack of lab seizures, it was a drop because of reporting. The reporting was consistently late. It is just a problem.

Right now, we are looking at clandestine lab numbers from 2005. We could definitely say that, in 2005, we had approximately 12,500 incidents. We cannot look at the 2006 numbers because those numbers change every day.

It is a lack of timely reporting as well, and I think that is why the numbers fluctuate. We think it is premature to talk about any numbers until well towards the end of the year or into the following year.

The CHAIRMAN. Is there an effort to bring some uniformity?

Mr. RANNAZZISI. Well, it is difficult. With the lab seizure system, there is no requirement to.

The CHAIRMAN. I guess my question, though, as I look back at it, was more directed towards smuggling across the southwest border than the clandestine labs that you are speaking about.

Mr. PASSIC. Yes. I think that has been addressed.

The CHAIRMAN. All right.

Mr. PASSIC. The DEA came up with the fix, and we have agreed that that is the best place to do it. We are working with the people out at EPIC to implement that.

The CHAIRMAN. All right.

On another question, Mr. Rannazzisi, I am referring to Mr. McCullough's statement how finding a decreasing number of small toxic labs has enabled the people in Iowa to be more proactive in initiating cases involving smuggling by sophisticated drug organizations.

What criteria would the DEA use to become involved in cases that may be initiated at the State level, using Mr. McCullough as an example, but not necessarily commenting on what he said?

Generally, what is the criteria that DEA uses in placing agents and resources in different cities and areas? How often is this placement of resources reevaluated and redistributed?

Mr. RANNAZZISI. Let me answer the last question first. I think we go through a regular assessment of our resources, where our personnel are deployed, and we measure that as compared to the drug threat. As an agency, we have a finite number of resources. Manpower is our most significant resource. We have to go and concentrate where the major drug threats are.

If you will remember, we go after the larger organizations. We try to go after the organizations that are putting the most methamphetamine out on the street nationwide, the ones that are multi-jurisdictional and international in scope. That does not mean that we do not assist State and local agencies.

The CHAIRMAN. Well, he did not criticize you.

Mr. RANNAZZISI. No, no. And I understand that. But we built our reputation on working with State and local agencies. Our task force program has been operational since the early 1970s, and we are proud of that fact.

As a task force group supervisor, we would look at every case that the State and local agency would bring to us and we would work them. Obviously there are no criteria. It's just what the supervisor and the case agent who reviews the case, where they think they can take the case with their State and local counterparts. So there are really no criteria involved.

The CHAIRMAN. Senator Baucus?

Senator BAUCUS. Thank you, Mr. Chairman.

I am concerned about the precursors and the countries that manufacture them, and what is being done to stop the precursors that are manufactured to be used for methamphetamine.

Could you name the major suppliers, either countries or companies, of precursors that are used for meth, that is, for illegal purposes?

Mr. RANNAZZISI. Well, if you are looking at ephedrine and pseudoephedrine, in India there are probably, I would say, seven to nine manufacturing operations that produce pseudoephedrine or ephedrine. I do not have their names handy, but obviously there is Lahore, India, Malladi, a lot of the large ones.

Senator BAUCUS. So India is a major source?

Mr. RANNAZZISI. Yes. India is a large source.

The CHAIRMAN. And those are companies—

Mr. RANNAZZISI. That manufacture pseudoephedrine and ephedrine.

The CHAIRMAN. But they are companies that have sprung up in India? They are not companies from America that went over there, or have any relationship to companies that are multinational, or anything like that?

Mr. RANNAZZISI. No. Well, I am sure at least one or two of those companies might have a U.S. component in the United States, but for the most part, yes, they are Indian corporations.

The CHAIRMAN. All right. Go ahead.

Mr. RANNAZZISI. They are all legitimate.

Senator BAUCUS. Sure.

Mr. RANNAZZISI. I mean, these are legitimate companies.

Senator BAUCUS. They are legitimate companies, but I suspect they have an idea, when they make a big shipment to Mexico, what it is going to be used for.

Mr. RANNAZZISI. Well, yes and no. If I could continue on the other countries, I will get back to it.

Senator BAUCUS. Sure.

Mr. RANNAZZISI. Germany. Their largest producer is BASF Germany. Then China. It is a little more problematic in China because we are not sure how many companies produce in China. But that is the third largest. Out of the three largest, they are a very large producer of pseudoephedrine and ephedrine.

Senator BAUCUS. Are there any producers in Mexico?

Mr. RANNAZZISI. No.

Senator BAUCUS. So it is all imported into Mexico?

Mr. RANNAZZISI. Yes, sir. And just to say that, well, why can India not just tell us where the pseudoephedrine is going in Mexico, it is not that easy.

Senator BAUCUS. Yes.

Mr. RANNAZZISI. The traffickers adapt to chemical control regulations. They are not going to ship right into Mexico, especially since COFEPRIS,\* the Mexican regulatory authority, has cut import limits to 70 metric tons from 150 metric tons previous to year 2005.

It does not go into Mexico, it goes into Africa, Central and South America, Europe. It goes through a system of brokers. It is not being shipped. Somewhere along the transportation line, the transit line, it is diverted out of that line and into the hands of smugglers who smuggle it in.

Senator BAUCUS. So what is the answer here? I mean, better data? More data? More reporting of shipments of goods, especially precursors?

Mr. RANNAZZISI. That is the question we ask all the time. I think the answer is, better cooperation with our international counterparts.

Now, the International Narcotics Control Board, Precursor Unit, basically controls all of the chemicals trafficked throughout the world. They do that under the authority of the 1988 Vienna Convention. The INCB, and recently the Commission on Narcotic Drugs, the CND, passed a resolution that now is basically encour-

---

\*The Federal Commission for the Protection Against Sanitary Risk.

aging countries to report all shipments of precursor chemicals to the INCB.

Now, before, tablet shipments, pharmaceutical preparations, were not reportable. They could ship out millions and millions of tablets and they did not have to be reported to the INCB.

Senator BAUCUS. Now, did these companies in India have to report?

Mr. RANNAZZISI. They did not, but India has. India started reporting, I believe, late in 2005, early in 2006, and they started reporting all tablets.

Senator BAUCUS. Then why does that not stop Indian manufacturing of precursors going to Mexican meth labs?

Mr. RANNAZZISI. Because India will export tablets to a broker, say, in Europe or in Africa. Once it gets to that broker, we have lost it out of the chain.

Senator BAUCUS. What about the organization you mentioned. Should there not be reporting there, too, that is, to a broker?

Mr. RANNAZZISI. Yes. Well, yes. If it is a legitimate organization operating under the rules of the country that it is operating in, absolutely. But what we find is, down the chain, some companies are just illegitimate, they are shell companies that trick the regulatory boards in that country into agreeing to allow the shipment or the import to occur.

Senator BAUCUS. So, if you could wave a magic wand, you are the man to solve this thing, what would you do? You have carte blanche. Whatever you say, you are the man.

Mr. RANNAZZISI. Well, what I would require is all countries to abide by the 1988 convention and the CND resolution that everybody signed onto in March of 2006.

Senator BAUCUS. And what does it take to get those countries to comply?

Mr. RANNAZZISI. Well, since it is a voluntary compliance they could sign on, but the fact is, when it comes time to do the reporting, it becomes diplomatic. A lot of diplomatic efforts need to be exercised in order to do this.

Senator BAUCUS. Yes. I see my time is almost up. Very briefly, Mr. Chairman.

Mr. Martin, so what tools do you have for solving this part of the tax gap?

Mr. MARTIN. Well, you had mentioned earlier, or asked, and I know the first panel talked about this, but in terms of how we get involved with State and local law enforcement, that vehicle, for the most part, is through the auspices of the grand jury, so we are talking about U.S. Attorneys' offices.

Being able to get formally into the game with State and local law enforcement, for us, the vehicle has been the U.S. Attorney's office. We take our cue from them, and also our partnerships with DEA, for the most part, when you are talking about the narcotics program.

Once we are able to get the intelligence, because I know we are talking about a resources issue here, a concern, particularly out in Bozeman, is we are going to take whatever information is given us, whether that be from State and local law enforcement, directly from the U.S. Attorney's Office, or from other Federal law enforce-

ment agencies—for instance, DEA—and we are going to evaluate that against the OCDETF standards. Again, similar for us with limited resources, we are looking to focus in on the most significant drug trafficking organizations.

If the intelligence that we evaluate takes us in that direction, then we will be prepared to commit resources, and we have, to significant narcotics investigations, and that includes methamphetamine investigations.

Senator BAUCUS. The same question. What needs to be done? Again, Mr. Martin, you are the man again. How are you going to find the money? What do you need to find the money?

Mr. MARTIN. At whatever level Congress wants us to be involved in addressing this problem—

Senator BAUCUS. No. We want you to solve it. You are supposed to tell us what you would need, what you would do, or tell the executive, whatever. Based on what you know, what is the best and most efficient way to have an efficient money trail to crack down and catch these guys?

Mr. MARTIN. You have to have resources involved.

Senator BAUCUS. You want more resources then.

Mr. MARTIN. You have to have resources in order to be able to do it. We have the expertise. That is there. So whatever resources—

Senator BAUCUS. Resources where?

Mr. MARTIN. We have 30 field offices across the country. And just to put it in perspective for you, as far as our resource commitment to the narcotics program, if you go back to 1996, at that time we committed about 22 percent of our Special Agent resources at that time to the narcotics program.

Fast forward to fiscal year 2006, right now. We are right at about 9 percent commitment of our resources to the narcotics program. That has been driven, between 1996 and now, by whatever we have been budgeted, and we work from that vantage point.

Senator BAUCUS. Thank you very much. I went way over my time. Thank you very much.

The CHAIRMAN. I want to follow on with something Senator Baucus brought up. I suppose it is because of some of the things you said, Mr. Rannazzisi. That is, I would like to get kind of a corporation's attitude towards our efforts.

Now, you have made it very clear that it is difficult once it leaves corporate manufacturing, that it could go through all sorts of shenanigans to avoid finding out that it is going to Mexico. But I would be interested in knowing—for instance, let us use BASF as one, because we all know that company.

Either your agency or an agency in Europe goes to them on this problem and says, we want some help on where these precursors go because some of them are going to be used for methamphetamine. Do they have a healthy attitude towards helping us?

Mr. RANNAZZISI. Absolutely. BASF, we work very closely with.

The CHAIRMAN. All right.

Mr. RANNAZZISI. While we do see product that potentially is from BASF, it is not a lot. Again, a lot of times when we see bulk precursor, it is difficult to determine the origin of that bulk precursor. But I can tell you that the European authorities and BASF U.S.

have been very cooperative in dealing with our issues and our investigations without any problem.

The problem is, again, we could only act on the information that is available to us in the international community. The INCB has a system set up to monitor all chemicals that are trafficked internationally.

The INCB stops shipments probably on a weekly basis. The INCB is stopping shipments. They have that authority to tell a competent authority, say in India, we do not think this shipment can go through. We cannot verify on the other end if the company is legitimate or not. They do that. But like everyone else, the INCB has resources that are stretched, and they cannot catch everything.

The CHAIRMAN. On another issue—and again, to you—would it be fair for me to assume, even though we have passed these good State laws, and now the Federal law that is going into effect—which you could not say for the Federal law yet, but at least for the State laws—that that probably has not affected the workload of the DEA much at all? It probably has affected the workload of local and State law enforcement people, but probably has not changed your workload at all.

Mr. RANNAZZISI. Well, not necessarily. We do have active lab teams. But in States like Oklahoma, Iowa, Oregon, Missouri, and Kansas, States that have passed that Schedule 5 or Schedule 5-type legislation, Illinois, those States that do have lab teams, we are looking at the fact that those lab teams are not as active because the lab numbers have dropped considerably.

So what we are doing now is, instead of those lab teams going back to work in general drug investigations, we have now told them to focus their efforts on meth organizations. If you are not looking for labs because the labs just are not there any more, you had better be looking at meth organizations, large organizational targeting.

The CHAIRMAN. All right. So those funds that would have gone for lab clean-up now can be used for further law enforcement.

Mr. RANNAZZISI. Well, yes. The funds that are available right now—I do not know if you are familiar with the container program, but we are using some of those funds to fund these container programs, these hazardous waste container programs, that started in Kentucky, and now we have expanded it to four or five other States, and we will continue to expand.

That helps States so the officers are not on the lab sites for long periods of time. They can do the clean-up at the lab site, move it to a container program, and then a hazardous waste contractor will come and clean up the container rather than at the lab site.

The CHAIRMAN. Also, what is the level of cooperation between Customs and Border Protection and the Drug Enforcement Administration, and do you share intelligence with Customs and Border Protection? What is the basis for sharing information protocols, for instance?

Mr. RANNAZZISI. Well, I can tell you that our relationship with CBP is probably the best it has ever been. We have a couple of joint projects working right now. We share information on a regular basis. We are in the process of creating—and Greg could tell

you better because he is more hands-on with this—a port program that really is going to be a dynamic program.

Do you want to add?

Mr. PASSIC. Yes. As I mentioned before, this thing requires collaboration. Cooperation does not work. We have to have all the intelligence that DEA has, and any other agencies, on license plates from vehicles that are potential couriers, money movers, individuals. We have to be able to get that to the front line somehow if our interdiction on outbound cash and meth coming back is going to be effective.

They have to trust us, if they are going to give us that type of detailed information from active methamphetamine cases involving undercover agents, that we do not just hit every car that comes back across that border and look at interdiction as being the end game. We have to do that in cooperation with them, which means we have to co-locate our resources with DEA offices and task forces along that border, and we also have to have DEA analysts and diversion investigators located with our port people. All of that is going on right now. We are very pleased with the cooperation and the candid sharing that we have received from DEA.

The CHAIRMAN. Well, now is that cooperation based on Memoranda of Understanding? Do they exist? Do they explain the protocols? If so, do you seem to have avoided confusion and ensured safety?

Mr. PASSIC. No, it does not involve a protocol and an MOU.

The CHAIRMAN. It is very informal, is what you are saying.

Mr. PASSIC. It involves the good will of agents on both sides of that aisle that want to do something about this. The exchange of information goes way beyond what either one of us is required by MOU to do, and we prefer to keep it that way. We see ourselves as working as an integrated team, not as one agency sharing something with another.

The CHAIRMAN. Well, then let me ask my staff something.

[Pause.]

The CHAIRMAN. This would be to all of you. Would you describe the level of interaction between your agency and the Office of National Drug Control Policy, if any?

Mr. RANNAZZISI. I personally have almost daily contact with ONDCP. As a policy arm, we are continually discussing different issues. They sit on the Methamphetamine Task Force and, with the Department of Justice and HHS, form the Synthetic Drug Inter-agency Working Group that establishes policy and actually put out the Synthetic Drug Strategy.

The CHAIRMAN. So that would be an example of guidance that you see from them?

Mr. RANNAZZISI. Policy guidance. Yes. Again, policy is developed with agencies such as CBP and DEA getting together with DOJ and looking at issues and developing policy. It is not just one agency.

The CHAIRMAN. Do they provide any assistance in coordinating with other agencies on narcotics-related issues?

Mr. RANNAZZISI. Yes. Absolutely. Yes. That is absolutely correct.

The CHAIRMAN. Do any of the other two witnesses have anything to add to that?

Mr. MARTIN. At the IRS, we do have one Grade 15 analyst who is assigned to the staff at ONDCP here in Washington, DC.

Mr. PASSIC. We participate in the same working groups that DEA does, basically.

The CHAIRMAN. All right.

In regard to bulk cash smuggling, it is my understanding it is on the rise on the southwest border. How is your agency addressing the rise of this form of money laundering, and how are you working together with other agencies to approach this evolving problem?

Mr. PATTON. If I may, Mr. Chairman.

The CHAIRMAN. You sure can.

Mr. PATTON. Yes. From DEA's standpoint, we have initiated a number of strategic initiatives, such as our bulk currency initiative, whereby we ask our agents to work directly with the 700,000 State and local counterparts and other Federal counterparts throughout the Nation when a bulk currency seizure is made along the Nation's highways or on the Nation's jetways, and so on, where we try to share the intelligence from that seizure.

For example, cell phone information or scraps of paper with information in the perpetrator's pockets, or other information related to that seizure, we try to tie that back to existing investigations, either to where the money may be going or to where the money may be coming from.

We have other initiatives, such as our concealed trap initiative, our National trucking initiative, and our money trail initiative, where we try to tie financial investigations into different investigations where we are attacking the command-and-control structure of the drug trafficking organizations utilizing their communications systems. So, we are proceeding and realizing that bulk currency smuggling is the main threat pertaining to methamphetamine distribution.

The CHAIRMAN. Mr. Martin, obviously your agency, through criminal investigators, has a great deal of expertise, so I was kind of wondering how it is being called upon.

What percentage of your agents are working on these types of cases? Are there requests for assistance that you have turned down due to the lack of manpower? Then I will have a follow-up.

Mr. MARTIN. Unfortunately, we have had to turn down investigations across the country. The criteria that we have tried to use, again, is to evaluate the information and assess whether or not it rises to the level of what we call an OCDETF-quality type investigation. If it does, then we commit resources to that investigation.

For fiscal year 2006, we have a goal of between 9 and 11 percent of our direct investigation time that we will commit to the narcotics program, including OCDETF investigations. But once we are in, we are focused in a number of different respects with different initiatives, including the bulk currency initiative.

We do have initiatives in six field offices where we are taking on a similar approach. It is not just enough to seize with regard to bulk currency stops. As a matter of fact, it is particularly important, with State and local law enforcement, particularly State troopers, we rely so much on them with these initiatives because they are in the position to actually make the stops, and not just with regard to cash, but also the intelligence. We cannot say



enough how important it is to take the intelligence and run with that.

So we are particularly interested in getting that kind of information through the six initiatives we started about a year ago, and we are going to continue that focus with the bulk currency initiative as well.

We have other initiatives, such as Suspicious Activity Report (SAR) review teams. We have about 80 SAR review teams around the country. Again, they are focused on analyzing information under the Bank Secrecy Act.

That is particularly important in terms of enabling us to be able to follow the money, if you will, through our analytical work, through working with other law enforcement agencies, again, including State and local.

The CHAIRMAN. Are you in any way, through your agency, able to help train law enforcement agencies in dealing with these issues as well?

Mr. MARTIN. Absolutely. That is something we have been very committed to. We have 30 field offices around the country. The relationship part of it is something that we focus on.

However we are able to provide resources, we put on financial investigation training for State and local law enforcement. We have done that in a number of our field offices around the country, and we will continue to do that. We consider that to be very important.

That includes our SAR review teams. They have an outreach component. That outreach component means that you pull in the financial and regulatory community, as well as State and local law enforcement, to work together on issues that are common in that particular geographical area for SAR review teams.

The CHAIRMAN. We have spent all of our time—I think most of the time—referring to Mexico as being the source of entry into this country. Do we have to be concerned about any other countries getting product from that country into this country, or maybe the meth being made in another country transshipped into the United States through Mexico?

In other words, are there other countries out there other than Mexico where this is being manufactured that are a real problem? If they are not a real problem, then do not worry about it.

Mr. RANNAZZISI. Yes. In this region, Mexico would be a primary-source country for the United States. There are manufacturing operations in Canada, but it is very small for methamphetamine.

The Far East. Many countries in the Far East produce huge amounts of methamphetamine, but it is for consumption in the Far East. We rarely see methamphetamine, the Yabba tablets or methamphetamine, from Far East countries in the U.S. or domestically.

The CHAIRMAN. In my State, at my town meetings, the perception of constituents that bring up the issue of illegal immigrants would also most likely associate it as a source of methamphetamine getting into the United States and into our State. Is that a correct perception that my constituents might have, or not correct?

Mr. RANNAZZISI. I think that whenever you have a transient population, migrant workers, you will have traffickers that basically blend into the community and distribute. The problem is, traf-

fickers hide very well and adapt to whatever community they are in.

The CHAIRMAN. So, illegal or legal, it does not make much difference? In other words, it is not a case of the sophistication of the cartel that they would be more apt to use legal people coming into the country as opposed to illegal people coming into the country as a source of trafficking.

Mr. RANNAZZISI. As couriers.

The CHAIRMAN. Yes. Couriers.

Mr. RANNAZZISI. Or transportation routes. Both legal and illegal.

The CHAIRMAN. Just so long as they get it in the country, it does not matter.

Mr. RANNAZZISI. Yes. And since they are using established trafficking routes for cocaine and heroin, they are using the same couriers.

Mr. PASSIC. Mr. Chairman, if I might offer this from our perspective: illegal drug traffickers in this country are definitely a problem. Both the Mexican and Colombian organizations deploy workers in the form of traditional cells, very similar to intelligence cells.

They are hired for a specific purpose. They are deployed for a specific purpose. They provide that service to the trafficking organization and will return, often to Mexico or Colombia, once law enforcement heats them up or their tour of duty has ended.

We have seen recent shifts in drug smuggling patterns based on the priority put on the southwest border, where the Mexican organizations are looking back again at an end run around that border.

The Colombian organizations that were very comfortable in moving drug loads from Mexico, are back in the Caribbean, with significant shipments. So we want to look ahead, also. We are looking at Colombia as a potential meth problem.

The CHAIRMAN. On another issue, to what extent are you getting cooperation from foreign banks and nations in battling money laundering?

Mr. PATTON. Through our offices, through our Financial Investigative Team (FIT) teams, we do receive cooperation from Mexico, through our office in Mexico City and the other related offices throughout the country. We try to work closely and develop a rapport with the Mexican banking officials and the Mexican banking system.

The CHAIRMAN. Well, do you feel that it is full cooperation? Is it something you have to work at all the time or are they interested in solving the problem as much as you are?

Mr. PATTON. Well, I mean, it is a case by case basis. But we do believe that there are certain people there that really do believe that they can solve the problem and will help us do so.

The CHAIRMAN. Are there any banks in Mexico that you know are in cahoots with drug trafficking and the cartels?

Mr. PATTON. No, sir, I do not.

The CHAIRMAN. I think I have asked all my questions. You have been very cooperative, and I appreciate it very much. I have a closing statement that I want to put in the record.

[The prepared statement of Senator Grassley appears in the appendix.]

The CHAIRMAN. The hearing is adjourned. Thank you all very much for your cooperation.

[Whereupon, at 11:41 a.m., the hearing was concluded.]



## A P P E N D I X

ADDITIONAL MATERIAL SUBMITTED FOR THE RECORD

---



# Committee On Finance

**Max Baucus, Ranking Member**

---

**Opening Statement of U.S. Senator Max Baucus (D-Mont.)  
Breaking the Methamphetamine Supply Chain: Law Enforcement Challenges**

Thank you, Mr. Chairman, for calling this hearing.

Meth is a personal fight for me. I've seen firsthand how it can ruin lives. I've seen what it does to young people. I've gone to high schools in Montana and talked with kids about meth.

More than four out of ten Montana teens report that meth is easy to get. That's second only to marijuana.

And Montana police officers tell me that meth is their number one law enforcement problem.

The National Association of Counties found that methamphetamine is the number one illegal drug problem for nearly half of the counties in the United States. Nationwide, nearly four in ten local law enforcement agencies have identified meth as the drug that poses the greatest threat to their area.

In April, the Finance Committee held a hearing on the effects of meth on the child welfare system and how it is hurting kids and parents alike.

And in July, the Senate passed the Improving Outcomes for Children Affected by Meth Act of 2006, which includes provisions to enhance the safety of children affected by meth abuse and addiction.

We reauthorized the Promoting Safe and Stable Families Program, which is the largest source of child welfare funding dedicated to services for children and families, and targets an available \$40 million dollar increase in mandatory funding for meth-related services that include family treatment.

*--2 more--*

We are working to help protect children and families from the dangers of meth abuse. Today, we will focus on a new angle: how to break the meth supply chain through law enforcement.

We're working on the problem. We now have improved law enforcement techniques and measures to monitor the chemicals that are used to make meth. The Combat Meth Act of 2005, which I am proud to have co-sponsored, was a major step forward in preventing diversion of medicines containing pseudoephedrine, an ingredient found in many over-the-counter common cold and allergy medicines, into meth.

The Combat Meth Act requires that medicines containing pseudoephedrine be relocated behind the counter on or after September 30, 2006, and establishes a pharmacy logbook registry for purchasers of these cold products. Putting the meth precursor chemicals "behind the counter" is meant to disrupt supply.

In Montana, we placed these medicines behind the counter by passing a similar law in July 2005. The Yellowstone County Task Force told me that this is a step in the right direction. Because now it is very difficult for the small, 'mom and pop' meth producers to obtain the chemicals that can be used to produce meth.

And as a result, meth production in Montana and elsewhere — by both small and large-scale laboratories — appears to be decreasing.

Even though meth production for both small and large-scale laboratories is decreasing in the United States, production of meth in Mexico, largely in "superlabs" controlled by drug trafficking organizations, has picked up.

The biggest "link" in the meth supply chain is at the southwest border. It is now estimated that 80 percent of meth consumed in the United States originates in Mexico and is smuggled into the country.

What Benjamin Franklin once said is true of meth as well: "An ounce of prevention is worth a pound of cure." In order to make our prevention efforts more effective, we need to know where to put our resources to break the meth supply chain.

Today we will hear from Lt. Dan Springer, Commander of the Missouri River Drug Task Force, headquartered in Bozeman, Montana.

I am proud of the work that the Task Force is doing. The investigations in Bozeman are critical to stem the tide of national and international drug organizations that are preying on Montanans.

And the Missouri River Task Force and other task forces around the country need the dollars to fight meth — to locate and clean up meth labs and put criminals making and dealing meth behind bars where they belong.

*--1 more--*

I am eager to hear from Lt. Springer about the changing meth “hot spots” and the challenges that law enforcement officers now face as a result of the shift in meth production.

Carl Venne, the Crow Tribal Chairman and an Advisory Council Member of the Montana Meth Project, will also be testifying here today. Meth abuse is particularly devastating on the reservations, which are experiencing an increase in drug trafficking. I look forward to hearing Chairman Venne’s perspective on Tribal efforts and strategies to combat meth, as well as meth law enforcement resources for reservations.

Education, prevention and treatment are vital in the fight against this growing threat to the welfare of our kids. Our law enforcement officers are stepping up to meet this challenge. And I am working to help them in their efforts.

I look forward to the testimony of our witnesses. We must do everything that we can to support our law enforcement officers. We must break the meth supply chain. We must do so the health and safety of Montanans and all Americans. And we must do so for our children.

###



U.S. SENATE COMMITTEE ON

# Finance

SENATOR CHUCK GRASSLEY, OF IOWA - CHAIRMAN

<http://finance.senate.gov>

## Statement of Chairman Grassley

Senate Finance Committee Hearing: "Breaking the Methamphetamine Supply Chain: Law Enforcement Challenges," Tuesday, September 12, 2006

I want to thank you for joining us today. I especially want to thank our panelists from Iowa and Montana for making the trip to Washington to share with us their insights on the growing epidemic of meth use across our country. It's no longer a secret that methamphetamine abuse and the disastrous effects of its manufacture have reached crisis levels in many areas of our country. The National Association of Counties released a survey in July that found that "county law enforcement officials across 44 states reported that methamphetamine remains the number one drug problem in their county," with forty-eight percent of their counties reporting that meth is the primary drug problem. This was more than the number that reported cocaine, marijuana and heroine combined. Whereas meth production and use may once have been geographically limited, this survey, as well as other reports, indicate that it appears to be moving steadily into most of the country.

I am encouraged by Congress' recognition of the need to control this crisis. Earlier this year, Congress passed the *Combat Meth Act*, which limits sales of meth precursor drugs like pseudoephedrine, and mandates that a log be kept of each sale. A number of states have already enacted similar restrictions on the availability of meth precursor drugs, and this appears to have had a major impact on the number of small toxic labs in those states as indicated by the great decrease in the number of local lab seizures in most of those states. It is reasonable to expect a comparable reduction in the number of small toxic labs in all states when the federal requirements become effective September 30<sup>th</sup> this year.

The challenges before us are still substantial. One of the results of the decrease in the small toxic meth labs in those states that have restricted access to the precursor products is an increase in the importation of meth by large, sophisticated drug cartels based primarily in Mexico. These smuggling organizations import a purer version of meth, employ difficult to uncover and track smuggling techniques, and are now operating in most parts of the country.

They are also engaged in repatriating large amounts of money to their home bases, laundering it through a variety of methods and often through legitimate business channels. The Drug Enforcement Administration estimates the illegal money laundering drug trade to be almost 50 billion dollars a year. It is also believed that a large portion of that money is smuggled out of our country in bulk across our borders.

Under these new circumstances, it is clear that a priority has to be placed on cooperation between the numerous federal agencies that are engaged in combating the meth traffic and the state and local law enforcement agencies that are on the ground in our local communities.

Our hearing today will hear testimony from state and local officials deeply engaged in the effort to close down meth traffickers and from federal officials equally deeply engaged in the effort at the federal level. We not only want to hear about their efforts at their respective levels and what we in the Congress might do to help them, but also about their cooperation and what we can do to help that cooperation become more effective.



**WRITTEN TESTIMONY OF  
C. ANDRE' MARTIN  
DIRECTOR OF OPERATIONS, POLICY AND SUPPORT  
CRIMINAL INVESTIGATION  
INTERNAL REVENUE SERVICE  
BEFORE THE  
SENATE FINANCE COMMITTEE  
ON  
BREAKING THE METHAMPHETAMINE SUPPLY CHAIN: LAW ENFORCEMENT  
CHALLENGES  
SEPTEMBER 12, 2006**

Chairman Grassley, Ranking Member Baucus, and Members of the Committee, I appreciate the opportunity to discuss the Internal Revenue Service's Criminal Investigation Division's (CI) role in combating money laundering and narcotics trafficking. These are serious national problems that erode our economy and destroy thousands of lives each year.

**CI Mission**

The fundamental mission of the Criminal Investigation Division, or CI, is to serve the American public by detecting and investigating criminal violations of the Internal Revenue Code and related financial crimes. Nearly 2,800 of our 4,330 workforce in CI are federal criminal investigators who have accounting or business backgrounds. Through a process of rigorous training and years of experience, we shape our agents into law enforcement professionals adept at investigating the most sophisticated financial crimes whether they involve tax evasion, corporate fraud or narcotics trafficking. Our highly skilled special agents follow the money in tax and related investigations that involve sophisticated schemes and complex transactions that span the globe.

Many of the “badges of fraud” our agents pursue in tax investigations are identical to those in money laundering investigations. These include the extensive use of nominees, currency, multiple bank accounts, layering of financial transactions through multiple entities, and the movement of funds offshore. Therefore, the same financial investigative skills required to conduct complex tax cases can be readily adapted to money laundering investigations. This is especially true in intricate financial investigations involving the movement of funds associated with organized criminal enterprises. CI’s statutory authority for money laundering, coupled with the financial expertise of its special agents, has made it possible to disrupt and dismantle criminal organizations employing complex financial transactions to launder illegal proceeds.

These unique skills place our special agents in high demand throughout the law enforcement community. The Attorney General recently communicated to IRS Commissioner Everson, “The agents of the Internal Revenue Service-Criminal Investigation (IRS-CI) are among the most important resources we can bring to bear in connection with the complex financial investigations that are critical to our success.”

#### **Strategic Priorities**

The IRS Criminal Investigation strategic plan is comprised of three interdependent programs: Legal Source Tax Crimes; Illegal Source Financial Crimes; and Narcotics Related Financial Crimes. Within these three programs, our special agents utilize all statutes within IRS-CI’s jurisdiction, the grand jury process, multi-agency task forces and various enforcement techniques to combat tax, money laundering and currency crime violations.

### Managing the Strategic Priority Balance

#### Tax Administration

The tax administration system in our country depends on voluntary compliance. Our core mission at the IRS is tax administration. This fact was reinforced by Judge William Webster who was commissioned by the IRS in response to concerns raised by this committee in 1998 to direct an independent review of IRS-CI and assess our effectiveness in accomplishing our mission as the Service's criminal enforcement arm. Judge Webster concluded that IRS-CI suffered from a "mission drift" away from investigating core mission focused tax cases. Judge Webster specifically attributed "demands placed on CI by other law enforcement entities to participate in narcotics investigations" as a primary cause of the drift away from the investigation of criminal violations of the Internal Revenue Code. Thus, CI's *primary* focus is criminal investigations involving legal source tax crimes and those financial crimes that have a direct nexus to tax enforcement.

More importantly, IRS-CI must investigate violations arising out of the Internal Revenue Code (or Title 26 of the USC) because no other federal law enforcement agency has the authority or responsibility to do so. Without a criminal investigation component, voluntary compliance would be seriously compromised. At the same time that IRS CI has sharpened its focus on tax investigations, we have carefully monitored our narcotics work to ensure we are focusing our scarce resources on those narcotics cases that bring the most value to the government's counterdrug efforts. With the tax gap estimated at over \$300 billion, CI's focus on tax investigations must remain our top priority.

**IRS-CI's Role in the Law Enforcement Community**

As part of the larger law enforcement community, we recognize that IRS-CI's role is broader than tax administration. We contribute our financial investigative expertise to many areas including money laundering, counterterrorism and public corruption. When traditional law enforcement investigative tools cannot solve a crime, IRS-CI can often make the connection between the crime and the criminal through a financial investigation. Tracing the money is often the key to a conviction. The broader financial linkage of multiple participants in criminal activity is also effective in dismantling criminal enterprises. IRS-CI works with other Federal, state and local law enforcement agencies because the unique skills we bring to the collaborative investigative effort cannot be easily duplicated.

**State and Local Law Enforcement Support**

IRS-CI supports cooperative efforts with Federal, state and local law enforcement agencies through task force participation under the auspices of each United States Attorney Office across the country. In particular, IRS-CI has consistently provided resource support to the following Federal, state and local joint initiatives, including but not limited to:

- High Intensity Drug Trafficking Areas (HIDTA)
- High Intensity Financial Crime Areas (HICFA)
- The OCDETF Fusion Center (OFC)
- DEA Special Operations Division (SOD)
- Suspicious Activity Report (SAR) Review Teams
- Bulk Currency Project
- Joint Terrorism Task Forces (JTTF)
- USAO Anti-Terrorism Advisory Councils (ATACs)
- El Paso Intelligence Center (EPIC)
- Interpol

**IRS-CI Narcotics Program**

IRS-CI's narcotics enforcement program works under the principal that drug trafficking organizations are motivated by greed, money, and assets – as are the financial and other professionals who assist drug traffickers and their organizations. Our ability to remove profits and identify all conspirators is often accomplished through in-depth financial investigations. In this respect, IRS-CI agents are important and logical additions to any investigative team when following the money helps piece together an intricate puzzle. This has proven true since our very first IRS narcotics investigation in 1920 when an opium grower failed to report the income earned from his product.

The objective of the IRS-CI narcotics-related financial investigation program is to leverage its financial investigative expertise to disrupt and ultimately dismantle the highest level drug trafficking and drug money laundering organizations that pose the greatest threat to Americans and American interests. We accomplish this in two ways. First, we foster compliance and confidence in the tax system through the investigation of unreported and "untaxed" proceeds (legal or illegal). Second, IRS-CI special agents trace the path of illicit drug proceeds and help prosecute drug and money laundering organizations by identifying the financial linkages among their members, associates, and all other co-conspirators. In fact, IRS-CI views money laundering violations as "tax evasion in progress" because the offenders are essentially trying to hide their dirty money from the government.

Historically, money launderers used legitimate businesses to “launder” their illegal proceeds. Now money launderers use more sophisticated schemes, computer technology, and international borders to conceal their income and/or assets. The leaders and lieutenants of criminal drug organizations go to great lengths to conceal their illicit income and its sources.

**Department of Justice**

IRS-CI focuses its narcotics program investigative resources on the highest level investigations as designated by the Department of Justice through the Organized Crime Drug Enforcement Task Force (OCDETF) Program. An indication of this type of quality investigation focus can be seen in the continually high prosecution recommendation acceptance rate by the Department of Justice – which has been 100% for the last three years. Examples of methamphetamine investigations meeting this OCDETF significant case standard and to which IRS-CI has committed investigative resources include Operation Northern Star; Operation Brain Drain; Operation Snow Globe; and Operation Ice Storm.

Our narcotics enforcement strategy does not focus on specific types of illegal drugs; rather, our targeting efforts conform to the qualitative framework established by the Department of Justice. In this respect, the OCDETF program places emphasis on conducting financial investigations as an integral part of each investigation to eliminate the infrastructure of drug organizations and to permanently remove the profits enjoyed by drug traffickers. As a result, all OCDETF-approved investigations must include a financial investigation, beyond merely the seizure of cars or other personal property of the main defendants.

**Conclusion**

In conclusion, regardless of the type of drug threat, whether it is methamphetamine, cocaine, heroin, or marijuana, IRS-CI will continue to support the Department of Justice through its OCDETF program in strategically targeting and dismantling the most significant drug trafficking organizations. The women and men of IRS-CI—the most skilled financial investigators in federal law enforcement—carry on an 87-year tradition of solving financial crimes by following the money trail. We also carry a proud tradition of working in a spirit of cooperation with our law enforcement partners in the Department of Treasury, Department of Justice, Department of Homeland Security and the state and local law enforcement community.

Mr. Chairman, I thank you for this opportunity to appear before this distinguished committee and I will be happy to answer any questions you and the other committee members may have.

**Questions for the Record From C. André Martin  
Senate Finance Committee Hearing  
Breaking the Methamphetamine Supply Chain  
September 12, 2006**

**Senator Grassley**

- Q1. Do you find that you receive the cooperation that you need from foreign banks and nations in battling money laundering?
- A1. International issues always add complexity to the investigative process. Our experience shows that criminal organizations are all too eager to exploit the soft spots in the international financial community. However, foreign banks, like U.S. banks, are governed by their country's financial regulations and statutes limiting the sharing of customer data. Therefore, their cooperation is in many instances dependent upon the U.S. requesting information pursuant to a Mutual Legal Assistance Treaty or through other formal channels. Overall, the level of cooperation from foreign countries for our investigations increased significantly over the past five years. This increase was the consequence of several initiatives, including:
- Internal Revenue Service Criminal Investigation (IRS-CI) works closely with other law enforcement agencies, the Department of State, and Treasury Department's Office of Foreign Asset Control (OFAC) and Financial Crimes Enforcement Network (FinCEN) to leverage all of our collective tools and skills most effectively.
  - IRS-CI posted eight attachés in overseas locations to support our international investigations by enhancing cooperation with foreign countries. We also similarly have representatives assigned to FinCEN, OFAC and Interpol.
  - IRS-CI is a permanent member of the U.S. delegation to the Financial Action Task Force Against Money Laundering (FATF) and several of its regional-style bodies such as its Caribbean equivalent (CFATF). The FATF, with assistance from the United States delegation revised and updated its 40 recommendations that set the standards for best practices to be adopted by countries to combat money laundering. In addition, FATF led a concerted international effort to increase international cooperation in combating money laundering and terrorism financing.
  - IRS-CI participated in the assessments of numerous Middle Eastern, South American, and European countries' anti-money laundering laws, policies, and procedures.
  - IRS-CI participated in anti-terrorism and anti-money laundering training with the FBI in countries such as Saudi Arabia, Thailand, Egypt, Pakistan, United Arab Emirates, Oman, Qatar, Bahrain, and others. This work helped these countries be in a better position to respond to our requests for cooperation.

Additionally, IRS-CI was a contributor to the "2006 International Narcotics Control Strategy Report (2006 INCSR)" released by the U.S. State Department's Bureau for International Narcotics and Law Enforcement Affairs in March 2006. Volume II of this report contains a section titled "Major Money Laundering Countries" which provides an excellent overview of the various issues with the major money laundering countries.



However, the level of cooperation still has room for growth. To achieve this goal, IRS-CI supports FATF's new initiative to form a working group to address international cooperation issues. The U.S. is one of the co-chairs of this new working group.

- Q2. Is there anything that Congress should do to enhance our abilities to track this money and seize the assets of criminal enterprises?
- A2. IRS-CI is currently working to identify optimal means and measures to effectively investigate both the domestic and international money laundering aspects of criminal enterprises. IRS-CI appreciates Congress's desire to help law enforcement attack money laundering in all its forms. We intend to work closely with our Legal Counsel, Department of Treasury and law enforcement partners to identify areas where changes to the law would assist will assist our collective efforts.
- Q3. Congress passed the Combat Meth Act as part of the reauthorization of the USA Patriot Act this year. Part of this legislation was written to help state and local law enforcement deal with the large number of "mom and pop" meth labs. What more can Congress do to help law enforcement put an end to this scourge? Are there other laws that need to assist you in your efforts?
- A3. A few short years ago, there was a major epidemic of illegal meth laboratories in the United States. These labs not only produced hazardous drugs, they created significant hazardous waste, seriously endangering the health of the public and particularly law enforcement officers, and heavily taxed the already limited resources of law enforcement. The Combat Meth Act helped law enforcement make significant progress in reducing meth use and shutting down meth labs inside the United States.

As we testified at the hearings, methamphetamine is only one part of our overall enforcement responsibilities, and it competes with many of our other priorities, of which the major portion do not pertain to narcotics crimes. As far as additional legislation targeted specifically at methamphetamine, we have to respectfully defer to our law enforcement colleagues at DEA who have primary jurisdiction for narcotics violations.

#### **Senator Baucus**

- Q1. We understand that money launders are using more sophisticated computer programs and cross-border transactions to hide their drug profits. Please describe some of the recent schemes IRS uncovered.
- A1. As identified in the 2005 National Money Laundering Threat Assessment to which IRS-CI was a contributor, bulk cash smuggling is currently believed to be the most pervasive money laundering method used by drug traffickers to move their illicit proceeds across the U.S. border. Drug Trafficking Organizations (DTOs) frequently use the same couriers, vehicles, routes and methods to smuggle narcotics to the U.S. and return the resulting proceeds to Mexico, often in concealed compartments, or "traps" in vehicles. The DEA, Bureau of Immigration and Customs Enforcement (ICE) and IRS-CI have each instituted bulk currency initiatives stressing the importance of immediate notification to federal law enforcement for contemporaneous exploitation of leads. These initiatives stress the exploitation of information collected from courier debriefings and seized evidentiary documents for analysis and linkage to ongoing investigations and/or to initiate new investigations.

In support of law enforcement, FinCEN issued an advisory to U.S. financial institutions warning of the prevalence of bulk cash smuggling by DTOs (FinCEN Advisory 2006-A003). FinCEN, in conjunction with Treasury and other law enforcement agencies, identified several activities indicative of bulk cash smuggling in this advisory. These include:

- An increase in the sale of large denomination U.S. bank notes to Mexican institutions by U.S. banks;
- Small denomination U.S. bank notes smuggled into Mexico being exchanged for large denomination U.S. bank notes possessed by Mexican financial institutions;
- Large volumes of small denomination U.S. bank notes being sent from Mexican casas de cambio to their accounts in the U.S. via armored transport, or sold directly to U.S. banks;
- Multiple wire transfers initiated by casas de cambio that direct U.S. financial institutions to remit funds to jurisdictions outside of Mexico that bear no apparent business relationship with that casa de cambio (recipients include individuals, businesses, and other entities in free trade zones and other locations associated with Black Market Peso Exchange-type activities);<sup>1</sup>
- The exchange of small denomination U.S. bank notes for large denomination U.S. bank notes that may be sent to jurisdictions outside of Mexico, including jurisdictions associated with Black Market Peso Exchange-type activities;
- Deposits by casas de cambio to their accounts at U.S. financial institutions that include third-party items (including sequentially numbered monetary instruments); and
- Deposits of currency and third-party items by Mexican casas de cambio to their accounts at Mexican financial institutions and thereafter direct wire transfers to the casas accounts at U.S. financial institutions.

IRS-CI and other federal law enforcement agencies documented that Money Service Businesses (MSBs) are also exploited by drug traffickers for money laundering. A key finding of the 2005 National Drug Threat Assessment was that drug traffickers frequently use MSBs—particularly money transmittal, currency exchanges (casas de cambios), and check-cashing businesses—to launder drug proceeds. The BSA and PATRIOT Act, combined with the cooperation of banks and banking regulators, have made it more difficult for money launderers to pass large amounts of cash through the formal banking system thereby making other parts of the financial system attractive to them to accomplish their nefarious purposes.

- Q2. The USA Patriot Act amended the Bank Secrecy Act and broadened the anti-money laundering system to more segments of the financial community. In IRS's experience, are money launders starting to use smaller banks or institutions, now that the Bank Secrecy Act tightened up the reporting rules?
- A2. IRS-CI does not track financial institutions by size within its case management system. Since enactment of the USA PATRIOT Act, there has been a substantial increase in Suspicious Activity Report (SAR) filings by MSBs. Suspicious Activity Reports filed by MSBs for the fiscal years 2003, 2004 and 2005 were 122,018, 301,372 and 368,049, respectively. Though final numbers have not been received yet, SARs filed by MSBs in FY 2006 are expected to exceed 450,000. This substantial increase might be indicative of escalating money laundering activity at smaller financial institutions such as MSBs. It might however also be indicative of increased awareness by the MSB industry of their BSA obligations, more effective outreach to MSBs by law enforcement and regulators, or enhanced suspicious transactions detections systems and training on the part of the MSB industry.

**Testimony of Sean McCullough**

**Special Agent in Charge,  
Iowa Division of Narcotics Enforcement  
Department of Public Safety**

*before the*

**Senate Finance Committee**

***Breaking the Methamphetamine Supply Chain***

***September 12, 2006  
10:00 a.m.  
215 Dirksen Building***

## **BREAKING THE METHAMPHETAMINE SUPPLY CHAIN: LAW ENFORCEMENT CHALLENGES**

My name is Sean McCullough and I am a Special Agent in Charge with the Iowa Division of Narcotics Enforcement (DNE). I have served the state of Iowa since 1989.

Since the early 1990's Iowa has been plagued by methamphetamine. Methamphetamine could be found in Iowa before the 1990's, but not in epidemic quantities. The majority of methamphetamine, found in Iowa during the early 1990's, was imported from Mexico and the southwest region of the United States. Those involved in the methamphetamine underworld soon found methods to manufacture this drug on their own to avoid dealing with the dangerous organized groups that were involved in the importation of methamphetamine into Iowa. Law enforcement was then faced with the daunting task of uncovering, seizing, and cleaning up these clandestine methamphetamine laboratories. Processing methamphetamine laboratories is very time consuming and expensive. Iowa law enforcement was combating the methamphetamine problem on two fronts: methamphetamine that was manufactured in clandestine laboratories, and imported methamphetamine.

In 1993 the DNE seized two clandestine methamphetamine laboratories. Each year following methamphetamine laboratories grew to epidemic proportions. By 2004 Iowa law enforcement officials seized 1,500 clandestine methamphetamine laboratories (ANNEX A). In 2004, according to the Drug Enforcement Administration, Iowa recorded the third highest number of methamphetamine laboratories as compared to any state in the United States. Approximately 97% of these methamphetamine laboratories seized produced only gram to one or two ounce quantities of methamphetamine. The DNE, and

other Iowa law enforcement agencies, were spending approximately 80% of their resources on 20% of the problem.

Reducing the number of methamphetamine laboratories, which produce approximately 10-15% of Iowa's total methamphetamine, would allow DNE and other Iowa agencies to concentrate enforcement efforts on the mid to upper level drug trafficking organizations that are responsible for importing about 85-90% of methamphetamine into Iowa.

In May of 2005, Iowa passed one of the nations strongest non-prescription pseudoephedrine laws (ODCP). This law restricted the sale of pseudoephedrine, which is the main ingredient in the illegal manufacture of methamphetamine. The law had an immediate and significant impact on methamphetamine manufacturing in Iowa. Law enforcement's purpose behind the law was to reduce the number of methamphetamine labs, which were taking most of their resources, to allow agencies to dedicate their efforts toward reducing the amount of imported methamphetamine. Since the law was enacted, methamphetamine laboratories have declined 72% (ODCP) (ANNEX B).

In 2004 the University of Iowa Hospitals and Clinics spent approximately \$2,798,726 to treat patients with methamphetamine related injuries (Van Haften). In 2005, after the passage of Iowa's pseudoephedrine law, the University of Iowa Hospitals and Clinics spent approximately \$262,329 on methamphetamine laboratory related injuries. These figures equal a savings of \$2,536,397 (Van Haften).

Iowa's pseudoephedrine law has also caused a reduction in total methamphetamine laboratory enforcement costs, which involve the cost of personnel, response, and disposal. In 2004, the total methamphetamine laboratory costs were

approximately \$2,590,482 (Van Haaften). In 2005, costs dropped to \$1,506,263 (Van Haaften). These figures equal a savings of \$1,084,219.

Even though Iowa's clandestine methamphetamine seizures have declined, Mexican drug trafficking organizations continue to dominate the state's illicit drug trade. These Mexican drug trafficking organizations are highly sophisticated and organized. This follows the information from the National Drug Information Center's National Drug Threat Assessment 2006, which states: "Mexican drug trafficking organizations and criminal groups are the most influential drug traffickers in the United States, and their influence is increasing. They are the predominant smugglers, transporters, and wholesale distributors of cocaine, marijuana, methamphetamine, and Mexico produced heroin in the United States; they are expanding their control over the distribution of these drugs in areas long controlled by Colombian and Dominican groups, including areas of New York and Florida" (p.1). It's even more imperative that law enforcement agencies work collaboratively to be effective against these sophisticated groups.

Along with increased seizures of methamphetamine, the drug purity rate in Iowa is also increasing. This purer form of methamphetamine is termed crystal methamphetamine or "ice" (ODCP). The average purity was 27% in 2001, 33% in 2004, and 54% in 2005 (ODCP).

Iowa law enforcement continues to work proactively against those individuals and groups involved in methamphetamine, by passing the pseudoephedrine law and now concentrating efforts against the organized groups importing the drug. The working relationships in Iowa remain united among the federal, state, and local law enforcement agencies, as well as with the United States Attorney's Offices and county prosecutors. It

is important for Iowa to reach out to other areas of the country that are confronted by methamphetamine as the drug crosses borders. To effectively combat methamphetamine, it's important to maintain these collaborative relationships.

Thank you for allowing me to address the Finance Committee about Iowa's response to the continuing methamphetamine problem. I am optimistic that we can find answers through continued dialogue about the challenges associated with methamphetamine.

**Works Cited**

Governor's Office of Drug Control Policy. *Iowa METH Facts*. July 31, 2006.

National Drug Information Center. *National Drug Threat Assessment 2006*. United States Department of Justice. < <http://www.usdoj.gov/ndic/pubs11/18862/strateg.htm#Top>>.

Van Haften, Marvin L. Director. Iowa Governor's Office of Drug Control Policy. *The Impact of Senate File 169 on Meth Abuse in Iowa*. A report to the Legislature. January 17, 2006.



**ANNEX A**  
**LAB COUNT**

2006 – 106 (DNE)  
2006 – 146 (Locals)  
**Total for 2006 – 252 (as of 8/31/06)**

2005 – 348 (DNE)  
2005 – 420 (Locals)  
**Total for 2005 – 768**

2004 – 644 (DNE)  
2004 – 856 (Locals)  
**Total for 2004 – 1500**

2003 – 671 (DNE)  
2003 – 484 (Locals)  
**Total for 2003 - 1,155**

2002 – 709 (DNE)  
2002 – 300 (Locals)  
**Total for 2002 - 1009**

2001 – 511 (DNE)  
2001 – 253 (locals)  
**Total for 2001 - 764**

2000 – 393 (DNE)  
2000 - 267 (locals)  
**Total for 2000 – 660**

1999 – 502

1998 – 321

1997 – 63

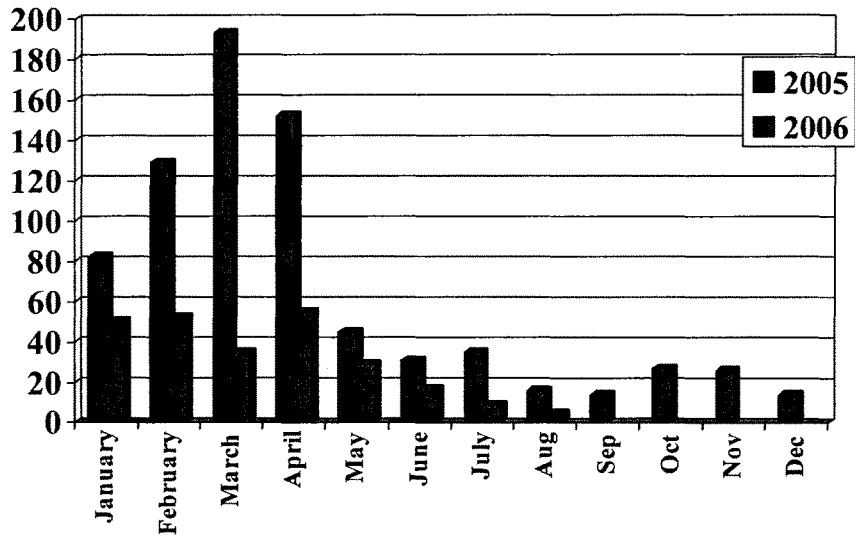
1996 – 31

1995 – 8

1994 – 4

1993 – 2

**ANNEX B**  
Tracking Iowa Meth Lab Incidents  
252  
Reported to DNE as of 08-31-06  
Total Labs for 2005-746



**Thomas J. Vilsack**  
Governor  
**Sally J. Pederson**  
Lt. Governor



**Kevin W. Techau**  
Commissioner

October 5, 2006

Charles E. Grassley  
Chairman  
Committee on Finance  
Washington, DC 20510-6200

Dear Senator Grassley:

The following are my written responses to your follow-up questions concerning my testimony to the Senate Committee on Finance:

- (1) You mentioned in your statement that your office has become more proactive and that the DEA has become more reactive due to increasing case load. Has the increased DEA case load affected their involvement in cases that your office is pursuing? If so, what has that effect been?
- (A) The Iowa Division of Narcotics Enforcement (DNE) maintains a good working relationship with the Drug Enforcement Administration (DEA). DEA has a limited number of agents in Iowa. For example, when DNE is working an operation that requires personnel, oftentimes DEA can only send one or two people to assist. Additional DEA agents in Iowa would greatly help our efforts.
- (2) In your statement, you said "it's even more imperative that law enforcement agencies work collaboratively to be effective against these sophisticated (drug smuggling) groups". On that point, how could your collaborative effort better address the smuggling problem?
- (A) DNE has initiated a collaborative effort to address smuggling into and across Iowa with the Iowa State Patrol. DNE has 3 agents designated to assist the State Patrol after an interdiction stop has been made. These agents then work to gather investigative leads to the source of the drugs, as well as their destination. These agents are also responsible to provide proactive interdiction projects. Even though DNE has 3 dedicated interdiction agents, all agents participate in these types of investigations as well.
- (3) Iowa was a state that took early action in moving the products that local meth makers use behind the counter, and this had the result of restricting these meth producers' access to those products. I am glad to hear that that law had its intended effect in reducing the number of small toxic labs in Iowa. Has the lower number of labs allowed you to reallocate resources? If so, how?

(A) The reduction in methamphetamine laboratories has allowed us to reallocate our resources, primarily personnel hours, toward individuals and groups trafficking methamphetamine in Iowa. Most of these investigations involve DNE agents working undercover to purchase drugs, conducting search warrants, surveillance, interviews, etc.

- (4) You estimated the savings from the reduced number of meth lab clean-ups at more than one million dollars.
- a. Do those savings accrue totally to your Agency?
  - b. Have those savings been reinvested in other Iowa law enforcement activities directed at combating the meth smuggling organizations that are bringing meth into Iowa?

(A) The savings from the reduction in methamphetamine laboratories are not attributed totally to DNE. Most of the money for laboratory clean-up came from federal funds. With the reduction of methamphetamine laboratories, federal funds from HIDTA and BYRNE have been reprogrammed to fund DNE's efforts against smuggling organizations. With DNE over 40 percent federally funded, HIDTA and BYRNE are critical in providing DNE the necessary funds to be effective in meeting our mission.

I appreciate your continued support in addressing the methamphetamine problem. Through continued dialogue and education, maybe we can find solutions. Please contact me if I can provide further assistance.

Sincerely,

Sean McCullough  
Special Agent in Charge  
Iowa Division of Narcotics Enforcement

**Gregory Passic  
Director, Office of Drug Interdiction  
Customs and Border Protection  
Department of Homeland Security**

Regarding

**“Breaking the Methamphetamine Supply Chain: Law  
Enforcement Challenges”**

Before The

**Senate Committee on Finance**

September 12, 2006  
Dirksen Senate Office Building  
Washington D.C.

## INTRODUCTION

Chairman Grassley, Ranking Member Baucus, and distinguished members of the Senate Committee on Finance, on behalf of Customs and Border Protection (CBP), I appreciate your invitation to testify today regarding the challenges that CBP and our law enforcement partners face in breaking the methamphetamine supply chain. The challenges are significant and those agencies confronting this threat must go beyond traditional cooperation if we are to be successful. Much of the methamphetamine used in the United States is manufactured in Mexico and smuggled across the border. Although Mexico has made significant regulatory changes in the past several months to reduce the amount of precursor chemicals that are diverted into illegal channels, more must be done to reduce precursor availability. Through seamless teaming among U.S. and Mexican Law Enforcement, along with several other international partners, it should be possible to disrupt the flow of precursors and thereby reduce the availability of methamphetamine. Disrupting the flow of drug cash smuggled to trafficking organizations will require new and creative ways of identifying transport vehicles and unprecedented intelligence sharing with CBP's front line. Intelligence-based interdictions will have to increase significantly to impact organizations smuggling drugs into U.S. Markets. By increasing our ratio of "Smart Interdiction," based on foreign and domestic investigative leads, we can provide valuable evidence for later criminal proceedings. Only by disrupting those key individuals who control illegal methamphetamine manufacturing, their suppliers of precursor chemicals, and the money that provides nourishment to their organizations, can we impact the availability of meth on our streets.

### CBP's Interdiction efforts

Present seizure data and other Law Enforcement reporting indicates that the substantial majority of meth seized in the United States originates in Mexico. Small-scale domestic meth production has been replaced by "Super Labs" operated by criminal organizations often based in Mexico or with ties to Mexico, capable of producing more than 10 pounds of methamphetamine within a single production cycle. Major trafficking organizations have well established transportation routes and exercise significant control in many of the major drug markets in our major cities. Success means getting into the middle of an already well-established criminal network that is directed remotely from Mexico. Intelligence derived by our investigative partners on these organizations will drive better targeting of smugglers, their conveyances, and concealment methods.

Almost 90% of the drugs entering into our country cross through the Southwest Border. The Mexican Border remains a significant challenge for CBP. However, there are various initiatives underway to gain operational control of that vulnerability. Those initiatives include:

#### **Ports of Entry:**

- Continued improvement of non-intrusive inspection technologies

- Use of new technology that highlights less dense objects, such as drugs and currency
- Increase the use of canines along the border. Approximately 60% of all drug seizures at Ports of Entry result from Canine detection. For narcotics canines, training includes detection of methamphetamines
- Better radio connectivity among federal, state, local, and tribal agencies
- Closer teaming with the investigative agencies to identify and disrupt “spotters” deployed by traffickers on both the Mexican and U.S.-side of the border
- Improve the use, analysis, and dissemination of advanced information to identify drug smugglers, conveyances, and traps. Almost all of our present seizures result from “cold hits” (those instances in which drugs are seized in the absence of significant targeting). This includes responding to leads provided by ICE, DEA, and Mexican Law Enforcement.
- Continue working closely with DEA to identify shipments of precursors destined for clandestine labs in Mexico. This will include the teaming of CBP’s predictive analysis unit with DEA’s methamphetamine intelligence group. Also joint CBP/ICE/DEA field teams will be working together to identify suspect precursor shipments.

**Between the Ports of Entry:**

**Efforts to secure the border through DHS’s Secure Border Initiative (SBI) will have a positive impact on the effectiveness of our counter-drug efforts.**

- Increase interdiction operations by adding Border Patrol Agents. The President has recommended the addition of between 6,000 and 8,000 Agents over the next three years.
- Develop and Deploy better Sensory and Surveillance capabilities under SBI.
- Enhance federal partnerships to include a closer working relationship with DEA, ICE, HIDTA’s and established drug intelligence centers.
- Work with EPIC, DEA, and ICE to identify Mexican controllers or “Gatekeepers” that control smuggling “turf” along the Southwest Border.
- Co-locate DHS component agencies, such as CBP and ICE, and DEA resources in joint intel groups and existing inter-agency drug task forces to conduct post seizures analysis and ensure that leads flowing from those seizures are fully exploited. Provide feedback to the Field that enables future interdiction actions that can be coupled with on-going criminal investigations. This process would provide information to DEA and their Mexican Counterparts who can take disruptive action on Mexican based drug principals, to include methamphetamine lab operators.

Hopefully the close working relationship between CBP and DEA will enable them to more effectively engage foreign counterparts in key countries to stem the flow of meth precursors to Mexico and other aspiring meth lab centers. Thank you again for this opportunity to testify. I would now be happy to answer any questions that you may have.



**Senate Finance Committee Hearing  
Questions Submitted for the Record  
Mr. Gregory Passic  
Breaking the Methamphetamine Supply Chain: Law Enforcement Challenges  
September 12, 2006**

**Senator Grassley**

- 1) What types of procedures are in place to assist CBP manage and process leads from other agencies? Do these procedures differ when the information relates to illegal narcotics at ports of entry or between ports of entry? If so, could you please explain why? Finally, are these protocols formalized in any formal memoranda of understanding?

Leads from other agencies are generally handled in the field on a case-by-case basis. If the lead requires action by more than one CBP element, or if it is general in nature, CBP Headquarters will coordinate through the Office of Drug Interdiction.

At the Ports of Entry, the principal method for handling information from other agencies is through the Treasury Enforcement Communications System (TECS). ICE uses TECS to create reports that link subject records to those reports. The subject records are essentially lookouts. When the person or vehicle crosses the border, CBP Officers will see the record and conduct the appropriate examination. Information received from other agencies is also entered into TECS.

Between the Ports of Entry (POEs), several Intelligence and Law Enforcement systems are used to receive and process intelligence and lead information from other agencies. Classified information is passed through secure systems including JWICS, SIPRNET/HSDN or secure telephone. Actionable information is then passed to the field at the appropriate classification level to assist in an operational response. Sensitive but Unclassified (SBU) information is passed via TECS, the Intelligence Reporting System (IRS), government e-mail and telephone. Due to the different working environment between the POE's, it is often more effective to pass leads through briefings, verbal or written "be on the lookout" alerts (BOLOs) and by disseminating intelligence reports directly to the agents.

Intelligence components within the Department of Homeland Security (DHS) and CBP are currently working on a policy that formalizes reporting protocols to receive and disseminate intelligence information. Field level intelligence components are in the process of collocating intelligence assets in many border locations.

- 2) I expect that, as part of the continuing unification and coordination of agencies in the Department of Homeland Security to improve efficiency and effectiveness, there has been some discussion as to streamlining the referral process regarding the seizure of illegal narcotics, such as one set of protocols and procedures that

would allow CBP, OFO and OBP to follow the same rules. Could you please share what has been discussed regarding this issue? If nothing has been discussed could you explain why not?

Within CBP the Offices of Field Operations (OFO) and Border Patrol (OBP) are reviewing present processes to establish common protocols and procedures. Immigration and Customs Enforcement (ICE) is CBP's primary investigative partner; however, OBP refers narcotic seizures to the Drug Enforcement Administration (DEA) as part of an existing MOU. Improving efficiencies with these partners in the drug arena is an important CBP goal. CBP management and the DHS Office of Counternarcotics Enforcement are currently reviewing means to enhance team coordination among the three partner agencies. By increasing connectivity with our ICE partners we have greater impact on the Drug organizations responsible for the drugs we seize at the border. Also, by increasing the ratio of intelligence-linked seizures DEA and ICE gain valuable evidence in their conspiracy cases. In addition to our primary role of interdicting drugs CBP's ultimate goal is integrating into a system that impacts major Drug Trafficking Organizations (DTOs) responsible for drugs entering the United States.

Following the creation of CBP and ICE within DHS, CBP met with ICE to negotiate standardized referral and/or notification procedures across the different components within CBP. Both CBP and ICE agreed that because of the uniqueness of OBP and OFO, separate agreements would be the most efficient and effective method of handling referrals. The flexibility offered by the differences in protocols and procedures is needed as it allows for tailored responses that meet the needs of components working under very different operating conditions and legal authorities.

OBP uses a variety of statutory authorities in order to interdict drugs; namely Title 8, 19, 21 and 31. Titles 19 and 31 require the government to demonstrate a direct and meaningful connection or nexus to the border. This requirement is easily met at the ports of entry, as their area of responsibility is generally limited to the actual border or functional equivalents. However, OBP's working environment does not always provide for a border nexus. Agents work in remote and vast areas as well as in interior locations, such as checkpoints, where interdictions may or may not involve people or cargo that can be readily tied to the border. Therefore, OBP places a greater reliance on its authorities under Title 21, which are delegated from DEA and do not require a nexus to the border. Both OBP and ICE receive delegated Title 21 authority from DEA who is the lead investigative agency for drugs. In the interests of promoting the strong and already existing working relationship with DEA, the Border Patrol will continue to refer drug cases to DEA in accordance with the existing MOU between CBP and DEA. However, when cases are encountered that have ties to ICE investigations, OBP notifies ICE of the arrest and/or interdiction. ICE and CBP share intelligence documents and have access to each other's intelligence systems.

- 3) I understand that there may be Memoranda of Agreement or Memoranda of Understanding between CBP and other agencies that detail or set out the rules, policies and procedures for case and information referrals when illegal narcotics

are seized. Please list those agencies and other law enforcement agencies with which CBP has agreements or MOAs/MOUs.

CBP presently has Drug MOAs/MOUs with DEA, ICE and FDA.

- a. Please provide copies of each agreement.

Copies are provided.

- b. Are CBP or DHS considering revising or rewriting any of these agreements in whole or in part? If so, which and why?

CBP is not currently considering revisions to the MOUs, but does conduct periodic reviews. From time to time, MOUs are further defined through addendums that help to further strengthen established alliances, clarify roles and responsibilities and ensure mission success.

- c. Please explain if there are any withdrawal provisions in these agreements which would permit one party or another to withdraw without cause.

All CBP agreements have withdrawal agreements for either party with 30 days notice.

- 4) Can you please explain, briefly, what CBP does when it encounters and seizes meth at the border?

There are no special protocols for handling methamphetamine seizures at or between the Ports of Entry.

- a. Who is notified and why?

At the Ports of Entry, the ICE duty agent is immediately contacted after the drugs are discovered. The potential for a controlled delivery is considered after interview of the smuggler. The Assistant U.S. Attorney is contacted to determine if the amount seized and any aggravating factors meet the local threshold for Federal prosecution. If a determination is made that there will not be a controlled delivery or Federal prosecution, CBP will then contact local law enforcement.

Between the Ports of Entry, the seizure is referred to DEA with an offer of "right of first refusal" in accepting the case. If DEA accepts the case, all evidence and suspects are turned over to their custody per existing MOU. If DEA declines the case local protocols are followed to engage state or local authorities.

- b. Do Memoranda of Understanding exist that explain protocols and avoid confusion and ensure safety?

Yes, the previously mentioned MOUs outline protocols for notification and referrals. If ICE is able to conduct a controlled delivery to an interior location, an existing protocol is used to notify DEA and provide DEA with an operational plan.

When ICE and/or DEA are operating near the Border, local notification thresholds and protocols are used that consider their unique operational environments.

- 5) The Treasury Enforcement Communications System contains a tremendous volume of raw data on border crossings by vehicles. The information captured in the system includes the license plate numbers of most vehicles which have crossed the border. Does CBP, DEA or any other federal agency systematically provide state and local law enforcement officials with this raw data information on the tag numbers of vehicles crossing our borders so that those state and local officers can identify for the federal agents those vehicles that are locally known to be registered to or used by meth users or traffickers so that border lookouts can be placed on those vehicles? If not, why?

CBP does not systematically provide state and local law enforcement with raw data from TECS. CBP encourages those officials to enter the suspect plates into CBP's border lookout system, so that they may be informed of border crossings. In a pilot project underway with DEA, CBP is checking border crossing activity of their suspect vehicles. If that pilot is successful, CBP anticipates working further with DEA and their state and local drug partners to provide crossing data of value to their efforts. We welcome getting all suspect vehicle information into our lookout system and sharing the results.

CBP also has a program with Texas DPS, which is very advanced in the use of data from all highway seizures made in their state. Seizures made at the Texas ports of entry are also shared, allowing both agencies a better understanding of vehicle concealments, violator characteristics and patterns of drug and money movement.

- 6) Congress passed the Combat Meth Act as part of the reauthorization of the USA PATRIOT Act this year. Part of this legislation was written to help state and local law enforcement deal with the large number of "mom and pop" meth labs. What more can Congress do to help law enforcement put an end to this scourge? Are there other laws that need to assist you in your efforts?

CBP appreciates Congress's offer to help us attack this problem. We intend to work closely with our Law Enforcement partners to identify areas where changes in law would assist our collective efforts.

**Senator Baucus**

1. We understand that pseudoephedrine production takes place legally in about ten countries. Please discuss Customs and Border Protection's capability to track meth precursor shipments?

CBP tracks legitimate shipments of ephedrine and pseudoephedrine through its commercial databases. For substances that are legitimately imported, DEA approval is needed for the importation. The DEA approval and notification is handled electronically. CBP ensures that the foreign shippers and US importers are authorized to conduct these transactions. CBP conducts examinations to ensure that quantities and descriptions are accurate.

2. Regarding efforts to identify shipments of meth precursors diverted or destined for clandestine labs in Mexico, please describe the teaming of Customs and Border Protection's Predictive Analysis Unit with the Drug Enforcement Administration's meth intelligence group.

CBP primarily coordinates with DEA through its Office of Field Operations, supported by the Office of Drug Interdiction. OFO then engages various CBP components to review and analyze data from cargo manifests. The Predictive Analysis Group is instrumental in assisting in that effort. Intelligence on suspect shipments primarily flows through the Trend Analysis Group and Automated Targeting System program managers. The Trend Analysis Group has the ability to handle very large amounts of data from within CBP and from other law enforcement agencies. They will add value to the information provided by DEA, return additional investigative targets and create lookouts for the ports of entry.

The Automated Targeting System program will take DEA intelligence on precursor movements through the maritime environment and attempt to identify those shipments that may be entering the U.S. or transiting U.S. ports destined to Mexico or South America. In most cases, the shipments will be illegally described as some other commodity.

**Joseph T. Rannazzisi**  
**Deputy Assistant Administrator**  
**Office of Diversion Control**  
**Drug Enforcement Administration**  
**U.S. Department of Justice**

Regarding

**“Breaking the Methamphetamine Supply Chain: Law  
Enforcement Challenges”**

Before The

**Senate Committee on Finance**



September 12, 2006  
Dirksen Senate Office Building  
Washington D.C.

## INTRODUCTION

Chairman Grassley, Ranking Member Baucus, and distinguished members of the Senate Committee on Finance, on behalf of the Drug Enforcement Administration (DEA), I appreciate your invitation to testify today regarding the challenges that DEA and our law enforcement partners face in breaking the methamphetamine supply chain. Doing what we do best, DEA, through our law enforcement partnerships across the country and around the world, is actively engaged in attacking the criminal organizations responsible for the trafficking in methamphetamine, the precursors utilized in its production, and the financial infrastructure these organization have established to feed and support their illicit activity.

### METHAMPHETAMINE: AN OVERVIEW

The Administration's *2006 Synthetic Drug Control Strategy - A Focus on Methamphetamine and Prescription Drug Abuse* is a companion document to the President's *National Drug Control Strategy*. The unique nature of the illicit market for synthetic drugs, such as methamphetamine, warrants a targeted response as the illicit markets for synthetic drugs contain unique challenges and vulnerabilities. The *Synthetic Drug Control Strategy* also adheres to the format of the President's *National Drug Control Strategy* by setting goals, specifically for reducing synthetic drug use primarily of methamphetamine by 15 percent over three years and reducing domestic methamphetamine laboratories by 25 percent over the same period. The President's *National Drug Control Strategy* and the *Synthetic Drug Control Strategy* have established a framework on which DEA will continue to perform its mission in support of those strategic goals.

Methamphetamine poses a significant threat to the United States. Methamphetamine is unique from other common drugs of abuse in that it is a synthetic drug and its precursor chemicals have historically been easy to obtain and inexpensive to purchase. These factors have contributed to methamphetamine's rapid sweep across our nation.

Methamphetamine's addictive characteristics produce devastating effects on all of its victims. These victims are not only limited to those who choose to use this poison, but others who become part of what could be considered methamphetamine's "collateral damage." Those who suffer the "second hand" effects of meth include the victims of methamphetamine-related crimes, innocent children whose homes have been turned into toxic clandestine lab sites, law enforcement officers who work with the hazardous materials found at lab sites, and the environment from the approximately five pounds of toxic waste produced for every pound of methamphetamine cooked. Methamphetamine has not only left a mark on the United States, but continues to be a significant problem in Asia and is increasingly becoming a problem in other parts of the world.

Methamphetamine consumed in the United States originates from two general sources, controlled by two distinct groups. Most of the methamphetamine consumed in the United States is produced by Mexico-based and California-based Mexican traffickers. These drug trafficking organizations control "super labs" (a laboratory capable of producing 10 pounds or more of methamphetamine within a single production cycle) and have distribution networks throughout the United States, as well as access to drug transportation routes to smuggle the methamphetamine from Mexico into the United States. Current drug lab and seizure data suggest that the majority of the methamphetamine used in the United States comes from these larger labs, which are increasingly found in Mexico.

Many of these drug trafficking organizations are of a poly-drug nature and distribute large quantities of methamphetamine to the domestic market. These same Mexican criminal organizations control most wholesale, mid-level, and retail methamphetamine distribution in the Pacific, Southwest, and West-Central regions of the United States, as well as much of the distribution in the Great Lakes and Southeast regions.

The second source for methamphetamine used in this country comes from small, toxic laboratories (STLs) located throughout the United States. These STLs produce relatively small amounts of methamphetamine, are generally not affiliated with major trafficking organizations, and are responsible for approximately 20 percent of the methamphetamine consumed in this country. Initially found only in most Western States, over the past 10 years there has been an eastward expansion of STLs, peaking with over 17,000 lab incidents reported in the United States in 2004. A number of factors have served as catalysts for the spread, including the presence of "recipes" easily accessible over the Internet, ingredients needed to produce methamphetamine, which were available in many over-the-counter cold medications and common household products found at retail stores, coupled with the relatively simple process involved to manufacture methamphetamine. Thanks in large part to the legislative restrictions placed on the sales of methamphetamine precursor chemicals, DEA has seen a significant decrease in the number of STLs found in 2005.

The common denominator in targeting both STL's and foreign source methamphetamine is the control of methamphetamine's primary precursor chemicals: ephedrine, pseudoephedrine, and phenylpropanolamine. At DEA, we have taken an active role in fighting the diversion of these key methamphetamine precursors. These efforts, through both enforcement and international agreements, have resulted in a reduction in the amount of precursor chemicals entering the United States. However, with this success, we have seen an increase in the flow of these precursor chemicals to other areas and an increase in the trafficking of methamphetamine from foreign sources into the United States.

In response to the threat posed by methamphetamine, DEA has taken several steps to address this threat through both domestic and international enforcement efforts. Domestically, law enforcement efforts have been aided by State and Federal legislation placing restrictions on the sale of methamphetamine's precursor chemicals. Of note, the recent passage of the re-authorization of the USA PATRIOT Act (particularly Title VII, the "Combat Methamphetamine Epidemic Act of 2005") has provided important additional tools to enhance law enforcement efforts both domestically and internationally.

DEA has also stepped up its efforts to focus on the financial side of drug trafficking organizations. Drug money is the life blood of drug trafficking organizations, and denying this funding is at the core of any effective drug enforcement strategy. DEA's financial enforcement program and the philosophy behind it apply DEA resources in the most effective and efficient manner to accomplish our mission of stopping the supply of illegal drugs from reaching the American Public. DEA's financial enforcement strategy is mission-driven in that we are focused on the flow of money back to international sources of drug supply, because this is the money that is destined to finance the next cycle of illegal drugs that will target our consumer market.

#### *Domestic Initiatives*

With respect to DEA's domestic efforts, we have redirected the focus of our Mobile Enforcement Teams (METs). DEA created the MET Program in 1995 to enhance our ability to attack violent drug trafficking organizations. MET was established on the premise that a skilled and trained



team of investigators targeting violent drug gangs would be a tremendous resource for local law enforcement. MET teams are deployed on a temporary basis (averaging 6 months per deployment) at the request of state and local law enforcement officials to assist the disruption or dismantlement of violent drug trafficking organizations and gangs.

Beginning in March 2005, DEA redirected its METs to prioritize deployments to assist with methamphetamine investigations. This shift was due to the rise in meth drug trafficking organizations and the violence associated with them. Currently, these teams focus on targeting methamphetamine Priority Target Organizations (PTOs) and clandestine laboratory operators in areas of the United States that have a limited DEA presence.

The significant reduction in the number of domestic small toxic labs this year, due in large part to recent legislation restricting access to methamphetamine precursor chemicals, will allow DEA's Clandestine Laboratory Enforcement Teams (CLETs) to expand their efforts beyond dismantling methamphetamine labs to also include the targeting of Mexican methamphetamine trafficking organizations. These DEA clandestine lab teams will use their lab expertise to trace precursor chemicals and seize finished methamphetamine and drug proceeds from drug trafficking organizations in the U.S. and Mexico. These teams also will work to identify and dismantle U.S.-based methamphetamine transportation and distribution cells.

Other domestic initiatives will include a national listing on the DEA Website of the addresses of properties in which methamphetamine labs or chemical dumpsites have been found. The registry will provide owners or renters with notice that a property may once have been used to produce methamphetamine and that there may be potential toxic hazards within the property.

DEA's longstanding enforcement efforts against methamphetamine include utilizing the Consolidated Priority Organization Targets (CPOTs) List, the PTO program, and the Organized Crime Drug Enforcement Task Force (OCDEF) program. These programs all provide assistance in identifying and targeting the most significant methamphetamine trafficking organizations, with the intent to disrupt and dismantle the organizations.

The FY 2006 CPOTs list has identified 8 of the 46 designated organizations as being engaged in methamphetamine trafficking. At the end of the second quarter of FY 2006, DEA had 149 active PTO investigations linked to those 8 CPOTs, of which 28 were active PTO investigations with methamphetamine as the primary type of drug. Since the inception of the PTO program in 2001, the DEA has either disrupted or dismantled in excess of 460 PTOs where methamphetamine was the primary drug involved.

To further coordinate and focus our methamphetamine and precursor chemical initiatives, the FY 2006 Department of Justice (DOJ) Appropriations Act directs the Attorney General to establish a Methamphetamine Task Force (MTF) within DEA. The purpose of the Task Force is to improve and target the Federal government's policies with respect to the production and trafficking of methamphetamine. The MTF is comprised of three DEA Special Agents, two Diversion Investigators (DIs), three Attorneys, and one Program Analyst. These are veteran personnel with extensive experience and knowledge in the field who will collect and analyze investigative and intelligence information from numerous sources. Their analysis will focus on trends in chemical trafficking and manufacturing methods, changes in trafficking routes and patterns, and regional abuse and distribution patterns. They also will analyze and monitor foreign and domestic precursor sources and trafficking trends, as well as methods of financing. In addition, the MTF will be involved in tracking sources of

chemicals and equipment, as well as methods of procurement and clandestine laboratory cleanup issues. Another aspect of the MTF's duties will involve the proposal of various recommendations addressing issues that are identified from their analysis. These recommendations will be forwarded to the National Synthetic Drugs Interagency Working Group for review and action.

In addition, the Combat Methamphetamine Epidemic Act of 2005 provides effective new tools to use in the battle against methamphetamine. The ability of pseudoephedrine to be sold on the spot market will be effectively taken away. These transactions, which were not regulated under the prior law, will be treated as new imports or exports and, therefore, subject to 15 day advance notification during which DEA will verify the legitimacy of the transaction. In addition, DOJ has the authority to establish production and import quotas for ephedrine, pseudoephedrine, and phenylpropanolamine. These quotas will allow for greater control of precursors that are imported into the United States.

#### *Partnership with State and Local Law Enforcement*

DEA has long prided itself on the outstanding relationship it has developed with its federal, state, and local counterparts. Whether on individual cases, through the High Intensity Drug Trafficking Area (HIDTA) program, or in formal DEA task force settings, many of the investigations we are working with our counterparts are among the best in the agency. With respect to our formalized state and local task force program it is important to note that DEA's successful enforcement efforts across the United States are not only led by DEA Special Agents but also by Task Force Officers (TFOs) from state and local agencies who are assigned to DEA offices. These TFOs are deputized by the DEA and have the same authority as DEA Special Agents. TFOs assigned to DEA offices throughout the country work alongside our Special Agents, DIs, and Intelligence Research Specialists with the same goal: to target the most significant drug trafficking organizations that can be identified in their areas of responsibility. Working in a task force setting brings together the expertise of the individual investigators and agencies and serves as a force multiplier, by which law enforcement can better attack the drug threats, to include methamphetamine, facing our nation. Many of these TFOs are members of our CLETs.

DEA continues to take a very aggressive role in training our drug law enforcement counterparts with respect to methamphetamine investigations. To expand and improve our efforts, DEA is establishing a new state-of-the-art clandestine lab training facility at the DEA Academy in Quantico, Virginia. The construction of this facility is expected to begin in the fall of 2006. Once the facility is operational, DEA will continue to train state and local officers, as well as foreign law enforcement officials, on the latest safety techniques and the latest techniques in detecting and investigating clandestine methamphetamine labs.

In addition, DEA continues its work to ensure that only legitimate businesses with adequate chemical controls are licensed to handle bulk pseudoephedrine and ephedrine in the United States, primarily through the efforts of our DIs. DIs are specialists in working with legitimate businesses to ensure compliance with the laws and regulations that govern the manufacture, sale, and transport of pharmaceuticals and other controlled chemicals. The investigative work done by these DIs, through their knowledge of pharmaceuticals and chemicals, plays a critical role in preventing the diversion of List I chemicals and pharmaceutical controlled substances. In the past 7 years, over 2,000 chemical registrants have been denied, surrendered, or withdrawn their registrations or applications as a result of DEA investigations. Between 2001 and 2004, DIs physically inspected more than half of the 3,000 chemical registrants at their places of business. We investigated the adequacy of their security

safeguards to prevent the diversion of chemicals to the illicit market and audited their recordkeeping to ensure compliance with federal regulations.

#### *International Initiatives*

The manufacture and use of methamphetamine is not a problem confined to the United States but one that has spread to many regions of the world. In fact, the International Narcotics Control Board (INCB) noted in its 2005 report *Precursors and Chemicals Frequently Used in the Illicit Manufacture of Narcotic Drugs and Psychotropic Substances* that the illicit manufacture of methamphetamine is spreading throughout the world at an alarming rate.

Specifically, the INCB report stated that the illicit manufacture of amphetamine-type stimulants (ATS)\*, and of methamphetamine in particular, is spreading in North America and South-East Asia, but also increasingly to other areas such as Africa, Eastern Europe, and Oceania. There are an estimated 26.2 million ATS users in the world, compared to an estimated 13.7 million cocaine users and 10.6 million heroin users. The report further stated that the spread of methamphetamine is due to the simple manufacturing process and the availability of the required precursors.

From DEA's perspective, increased international cooperation is essential to our continued efforts to combat methamphetamine. Some of the most significant and successful international efforts to combat methamphetamine involve a series of enforcement initiatives worked jointly between law enforcement in the United States and Canada from the late 1990s into 2003. These enforcement initiatives, known as Operations MOUNTAIN EXPRESS I, II, and III and Operation NORTHERN STAR, were principally responsible for the significant reduction in the amount of pseudoephedrine entering the United States for use in super labs. In turn, most of the super labs and the pseudoephedrine needed for them moved from the United States to Mexico.

DEA is the lead agency in working with our Mexican counterparts to combat methamphetamine. Since 2001, DEA with support from the Department of State and other U.S. law enforcement agencies has provided or sponsored training on numerous occasions for our Mexican counterparts in the areas of clandestine laboratories, chemical training, and related prosecutions. Training has been provided both to officials who regulate precursor chemicals and pharmaceuticals at the state and Federal level within Mexico, as well as agents from the Agencia Federal de Investigaciones (AFI) and a number of prosecutors within the Mexican Organized Crime Unit (SIEDO). The combined numbers of students who have received training through these cooperative efforts exceed 450.

Mexico has independently implemented several controls on pseudoephedrine in cooperation with industry and is considering others. Those implemented now, or planned soon, include: (1) limiting retail sales to pharmacies; (2) limiting sale quantities to 3 boxes of 60 milligram or more combination pseudoephedrine products; and (3) distributors voluntarily agreeing to limit sales to customers with appropriate government registrations (pharmacies) and with legitimate commercial needs. Mexico also imposed recently a policy limiting imports of pseudoephedrine and ephedrine to manufacturers only. Wholesale distributors are barred from importing raw material pseudoephedrine and ephedrine, and importers are limited to shipments of no more than 3 metric tons at a time. In addition, the United States and Mexico have jointly obtained a commitment from Hong Kong not to ship chemicals to the United

---

\* In Europe and Asia the term "amphetamine-type stimulants" is used rather than a specific reference to methamphetamine. The term ATS includes the following: amphetamine, methamphetamine, and MDMA (Ecstasy), and its analogues. This term also is used by the United Nations.

States, Mexico, or Panama until receiving an import permit, or equivalent documentation, and to pre-notify the receiving country before shipment. Combined with other controls that the Government of Mexico has put in place, this agreement has significantly reduced the number of suspect shipments of methamphetamine precursor chemicals from Hong Kong to Mexico.

Very recently, Mexico began imposing import quotas tied to estimates of legitimate national needs, which are based on extrapolations from a large population sample. A study conducted by The Federal Commission for the Protection against Sanitary Risk (COFEPRIS) estimated that there was an excess of imports of pseudoephedrine products of approximately 60 to 100 metric tons in 2004. The Government of Mexico reported that its efforts to control methamphetamine precursor chemicals reduced imports in 2005 by 40 percent to 130 metric tons from its peak of 220 metric tons in 2004. DEA has been advised that it is the Government of Mexico's intention to reduce further pseudoephedrine and ephedrine importation permits to 70 metric tons in total for 2006. Mexican officials have further advised that this 70-ton limit also applies to combination products containing pseudoephedrine and/or ephedrine.

An example of Mexico's interdiction efforts concerning pseudoephedrine occurred during December 2005, when approximately 3.2 metric tons (approximately 5.1 million pseudoephedrine combination tablets) of pseudoephedrine were seized by Mexican authorities in the Port of Manzanillo, Mexico. The tablets were concealed within a shipment of electric fans, which were packaged in approximately 1,260 boxes. During the follow-up joint investigation conducted by DEA and Hong Kong Customs and Excise Department, officials disclosed that the shipment originated in mainland China and transited one of the mainland China/Hong Kong border crossings before being subsequently loaded on a marine vessel en route to Mexico.

Additional steps are also being taken by the United States and Mexico. At the May 2006 National Methamphetamine and Chemicals Initiative (NMCI) Strategy Conference in Dallas, Attorney General Gonzales announced important new anti-methamphetamine domestic initiatives, as well as new partnerships between the United States and Mexico in fighting methamphetamine trafficking. Joined by Mexican Attorney General Daniel Cabeza De Vaca, Attorney General Gonzales unveiled DOJ-led initiatives to improve enforcement, increase law enforcement training, improve information-sharing, and increase public awareness.

Among the United States/Mexico partnership efforts is an agreement between DEA and the Mexican government to establish specialized methamphetamine enforcement teams on either side of the border. In Mexico, these teams will focus on investigating and targeting the most wanted Mexican methamphetamine drug trafficking organizations, while DEA-led efforts on the United States side will focus on the methamphetamine traffickers and organizations transporting and distributing the finished methamphetamine being produced in Mexico. Other initiatives that are part of the United States/Mexico partnership include:

- A new DEA, U.S. Immigration and Customs Enforcement (ICE) and Customs and Border Protection effort to focus on ports of entry with the intent of targeting suspicious cargo that is likely to be related to methamphetamine trafficking organizations;
- A Bi-national Law Enforcement Working Group that will focus on methamphetamine production and trafficking from both an enforcement and intelligence perspective;

- A DEA and Mexican National Conference for Information, Analysis and Planning in Order to Fight Crime effort to further share intelligence information and continue to develop stronger working relationships. Such collaborative efforts will focus on investigating large-scale methamphetamine trafficking organizations that are operating in Mexico and the United States.
- A jointly developed DEA and Mexican police Most Wanted List of chemical and methamphetamine trafficking organizations that will focus bilateral law enforcement efforts on the biggest threats;
- An agreement between the DEA Office of Diversion Control and Mexico's chemical regulatory agency, COFEPRIS, to a personnel exchange in which chemical regulatory experts from within each agency will be embedded within the other's agency for a specific period to observe, learn best practices, and then implement joint strategies complimentary to both regulatory agencies;
- Eight DEA trucks used in clandestine lab enforcement operations that have been refurbished by the Department of State and donated to Mexico to be used by the above referenced specialized Mexican enforcement teams; and
- In conjunction with the Department of State's (DOS) Bureau for International Narcotics and Law Enforcement Affairs, DEA will provide training for nearly 1,000 Mexican police officials to focus on a variety of investigative, enforcement, and regulatory methods related to methamphetamine trafficking.

Another important aspect of our international efforts to combat this drug has been the assignment of DIs to a number of our foreign offices. The DIs coordinate with foreign host country counterparts to establish effective systems of chemical controls and ensure customers in foreign countries receiving U.S. exports of pharmaceutically controlled substances are in fact, legitimate companies.

In addition to these efforts with Mexico, the DEA, operating under the auspices of the INCB's Project Prism, hosted a meeting in February in Hong Kong for law enforcement and regulatory officials of producing countries of ephedrine/pseudoephedrine and 3-4 methylenedioxyphenyl-2-propranolone. The objective of this meeting was to develop and enhance systems for voluntary cooperation in data collection and the exchange in law enforcement channels of information on pharmaceutical preparations containing ephedrine and pseudoephedrine, as well as bulk precursor chemicals. This was the first time that almost all of the countries that produce these chemicals and those countries affected by methamphetamine have sat down together to discuss this problem.

While there were some differences of opinion as to the manner and channels in which information regarding the licit trade in these substances should be exchanged, it was important to bring precursor-chemical-producing nations and nations in which illicit drug manufacturing occurs together for candid discussions. The communication that occurred between countries attending the open forum meeting was encouraging. DEA, in cooperation with the Department of State (DOS), will continue discussions with all involved countries. The discussions will seek to determine the worldwide production of these chemicals to further identify producers and distributors, to gain better insight as to what form (bulk versus tablets) the chemicals are manufactured and distributed at various stages, and to learn where the chemicals are destined.

The Hong Kong meeting also helped to lay a foundation for discussions and negotiations between concerned governments, which led to the passage of a resolution at the 49<sup>th</sup> Commission on Narcotic Drugs in Vienna, Austria in March of this year. The resolution, entitled "Strengthening

Systems for Control of Precursor Chemicals Used in the Manufacture of Synthetic Drugs," involves the synthetic drug precursors previously mentioned, as well as preparations containing these substances and phenyl-2-propanone (P2P).

The resolution calls on all nations who are signatories to the various United Nations' conventions dealing with drugs and precursor chemicals to provide to the INCB annual estimates of their legitimate requirements for these substances and preparations containing these substances. The resolution also calls for nations to ensure that their imports of these substances are commensurate with their respective nation's legitimate needs and urges them to continue to provide to the INCB, subject to their national legislation and taking care not to impede legitimate international commerce, information on all shipments of these drugs and precursor chemicals. The resolution further requests countries to permit the INCB to share the shipment information on these consignments with concerned law enforcement and regulatory authorities to prevent or interdict diverted shipments. While we consider this resolution an important first step, our ability to obtain additional information from the INCB is contingent upon nations providing the information requested pursuant to the resolution.

Most recently, the Combat Methamphetamine Epidemic Act of 2005 will expand the notice of importation to include all information known to the importer on the chain of distribution. If it is determined that an importer is refusing to cooperate in providing such information or DEA has concerns about the downstream customers, the DEA may issue an order prohibiting the importation of Scheduled Listed Chemical Products (SLCP). Further, the Act requires the DOS to identify the five largest exporting countries and the five largest importing countries with the highest diversion of SLCPs and provide an economic analysis of worldwide production as compared to legitimate demand.

#### **FOLLOWING THE MONEY**

The Office of National Drug Control Policy estimates that Americans spend approximately \$65 billion per year on illegal drugs. With only approximately \$1 billion seized per year, domestically, by all Federal agencies combined, no one can claim to have discovered the "holy grail" of drug financial investigations. DEA's revenue denied program comprises a global accounting of DEA's efforts to bankrupt DTOs, especially those with international DTOs that target our communities with their poison. DEA is an agency with global reach, with 86 offices in 62 countries. DEA's financial enforcement strategy is "mission driven" in that we are focused on the flow of money back to the international sources of supply, since this is the very money that is destined to finance the next cycle of illegal drugs that will target our consumer market here in the United States. This is also the money that allows the international DTO's to continue to operate. It is important to us at DEA to carry the fight to the doorstep of those DTOs that spread their poison in the United States and drain billions of dollars each year from our economy.

There is little doubt that the sole reason people sell drugs is for the money. Money serves as both the motivating force and the lifeblood of DTOs. Therefore, attacking the financial infrastructure of DTOs has to play a key role in any viable drug enforcement strategy. DEA's objective with financial investigations is to identify and halt the use of drug proceeds that finance the continued operations of DTOs.

#### *Financial Investigations Strategy*

Since the major DTOs involved in methamphetamine production are also involved in the smuggling of marijuana, heroin, and cocaine, it is virtually impossible to differentiate the source of the

drug money by the type of drug. In the case of methamphetamine, payments to sources of supply are almost exclusively in the form of currency. Thus, financial investigations relating to the movement of funds to Mexico are not classified or segregated by any particular type of drug. However, illicit drug proceeds can be categorized based on how they are used by the DTOs. Drug proceeds are used to pay sources of supply, to support the infrastructure of the organization, and to acquire personal assets. The "cash on hand" left over can be considered as either part of the organization's working capital or personal wealth.

To significantly reduce the supply of illegal drugs, DEA must focus our efforts on the drug proceeds used to pay the sources of drug supply. Denying the sources of supply revenue from the distribution of drugs will hamper their capability to acquire or produce additional drugs and support their organizations. The higher in the drug distribution chain we can deny the revenue flow, the greater effect this denial will have on the entire distribution network.

Payments to sources of drug supply flow almost exclusively in the form of currency. This currency is handled and transported covertly, just like the drugs that generated it. Thus, the investigation of this component of drug proceeds is a "contraband" investigation, as opposed to an "asset tracing" investigation, which are more traditional money laundering investigations that other agencies are better equipped and more experienced in dealing with than the DEA. DEA, on the other hand, is the best equipped and trained agency to carry out "contraband" investigations. DEA, on the other hand, is well-equipped and trained to carry out "contraband" investigations. Accordingly, DEA "financial investigations" focus on identifying and interdicting those drug proceeds flowing back to the source of drug supply.

In this type of money flow investigation, the financial transactions are also overt acts in the drug conspiracy and, oftentimes, provide the best evidence in linking local drug organizations to their sources of drug supply. Since drug money flows toward the "command and control" of the DTO, as opposed to away from "command and control" like drugs, a money flow investigation enables an investigator to work his/her way up the distribution chain, which is the primary objective of all drug investigations. To ensure maximum effectiveness, DEA money flow investigations are designed to be compatible with, not competitive with, the long-term asset-tracing type investigations that have traditionally been the norm. In fact, whenever DEA is involved in a long-term, asset-tracing type investigation, there is always an agency such as the Internal Revenue Service (IRS) involved as well.

A 2005 DEA study determined that during 2003 and 2004 there were excess U.S. dollars present in Mexico that could not be accounted for from legitimate sources totaling at least \$9.2 billion and \$10.2 billion, respectively. It is estimated that the four major drugs that are smuggled into the United States from Mexico ( i.e. methamphetamine, heroin, cocaine, and marijuana,) generate as much as \$22 billion per year for the sources of supply.

DEA has identified the following as the major money laundering threats relating to movement of drug proceeds to Mexico:

- Bulk currency smuggling to include the transportation organizations that service the Mexican DTOs.
- Mexican currency exchange houses, referred to as Casas de Cambio and Centros Cambiario.
- The remission of drug proceeds through U.S. based money remitters.

To address these threats, DEA has formulated a strategy that encompasses intelligence-based enforcement, as well as domestic and international collaborative efforts to target the movement of bulk currency and ultimately attack the command and control targets in the United States and Mexico. By working closely with our Federal, state, and local law enforcement counterparts in the United States and our counterparts in Mexico, we exploit the intelligence from bulk currency interdictions to identify, target, and ultimately, prosecute the command and control targets on either side of the border.

DEA also works closely with the Treasury Department, Financial Crimes Enforcement Network (FinCEN) and the Office of Foreign Assets Control (OFAC) to identify opportunities to apply regulatory sanctions and freezing orders against these Mexican DTOs. Through enforcement operations, analytical analysis of the Bank Secrecy Act, and other financial records, we identify the movement of drug funds. We also target rogue remitter agencies and agents who are complicit in the movement of drug money to Mexico, through criminal enforcement and asset forfeiture.

To carry out our strategy, DEA, through the Office of Financial Operations, has instituted a number of national initiatives, that target bulk currency smuggling and the remission of drug money through U.S. wire remitters.

In October 2004, DEA instituted the Bulk Currency Initiative. The Bulk Currency Initiative is an information sharing vehicle by which our state and local counterparts can share the information they obtain from making a currency seizure, whether it be along the nation's highways or in operation at an airport. Information obtained by DEA in this manner many times can be tied to other investigations throughout the world. The currency seizure itself then becomes an overt act in the drug conspiracy investigation and often helps to identify other co-conspirators within a DTO that were previously unknown. This initiative resulted in an increase in DEA's currency seizures for FY 2005 of over \$80 million, from \$259 million to \$339.6 million, an increase of 31 percent. This initiative continues, and DEA hopes to see similar results for this fiscal year.

To coordinate multi-jurisdictional bulk currency investigations, DEA's Special Operations Division (SOD) instituted the Money Trail Initiative. In the first year and a half, the Money Trail Initiative was responsible for the dismantlement of six national organizations involved in the transportation of bulk currency drug proceeds from various points in the United States to Mexico. As of July 2006, this initiative has resulted in the arrest of 418 defendants and the seizure of \$65.4 million in United States currency, \$14.5 million in assets, 59.6 metric tons of marijuana, 9.7 metric tons of cocaine, 126.7 kilograms of methamphetamine, 9 kilograms of heroin, 249 vehicles, and 77 weapons. One of these SOD investigations, Operation Choque, resulted in the identification and arrest of Mexican CPOs Oscar, Miguel, and Luis Arriola-Marquez, and the dismantlement of their organization, which, based on ledgers seized by Mexican authorities, was responsible for the smuggling of at least 14,000 kilos of cocaine into the United States and the smuggling of \$240 million out of the United States. Based on information supplied by DEA, Mexican authorities have seized over \$18 million of the Arriola-Marquez Organization's assets.

#### *Domestic efforts*

DEA has 24 Financial Investigation Teams (FITs). These teams are located in each of its 21 domestic field divisions, as well as in our Bogotá and Bangkok Country Offices. Each domestic field division has one FIT located in the same city as its division office, with the exception of the Miami Field Division, whose FIT is located in Ft. Lauderdale, Florida, and the Chicago Field Division, which has two FITs based in Chicago.



The FITs are tasked with carrying out DEA's national financial initiatives, providing guidance to other DEA personnel in financial investigations, conducting the more sophisticated financial investigations, and serving as DEA's local point of contact with the financial community. Administrator Tandy has mandated that all DEA investigations include a financial investigation. The FITs are not expected to conduct all DEA financial investigations. However, they do provide guidance, when needed, to other DEA investigators on their financial investigations.

DEA has assigned 159 Special Agents, 8 Intelligence Research Analysts, and 3 DIs to the FIT Teams, which averages 7 Special Agents per FIT. With the exception of the Washington D.C. and San Francisco Field Divisions, each FIT is multi-agency, with participation requested and encouraged from Federal, state and local agencies. Current participation by outside agencies is as follows:

- IRS-Criminal Investigation: 12 full time and 4 part time Special Agents
- ICE: 4 full time and 2 part time Special Agents
- FBI: 1 full time Special Agent
- U.S. Postal Inspection Service: 2 part time Postal Inspectors
- National Guard: 3 full time Analysts
- Financial Investigative Contractors: 24 full time and 5 part time
- State & local Police Officers: 63 full time and 5 part time

The Special Agents, Postal Inspectors and Police Officers from these outside agencies conduct drug-related financial investigations jointly with their DEA counterparts. This team effort brings the specialized expertise and jurisdictions of their parent agencies to the table, where all participants have the same access to the DEA databases as their DEA counterparts.

In addition to the FITs, DEA has a number of Special Agent personnel assigned to liaison positions within the Intelligence Community, Department of Defense and the Executive Office of the President (ONDCP) who enhance our ability to conduct financial investigations. These Special Agents have sign-on authority to the databases maintained by these agencies that they need to perform their liaison duties. In addition, DEA has a limited number of Special Agents assigned to other law enforcement agencies. These agents have direct sign-on authority to the databases of the agencies to which they are assigned. One example of this is the ICE-led El Dorado Task Force in New York, where DEA has a full enforcement group assigned.

#### *International Challenges*

Within the United States, regulators and law enforcement have a fairly accurate overview of financial transactions. Particularly after the additional tools provided by the USA PATRIOT Act came into force, law enforcement generally has access to the information it needs to identify and thwart significant money laundering efforts within the United States. However, this same transparency is not present in many other countries, including Mexico. Accordingly, DEA believes that most drug proceeds are now smuggled out of the United States to Mexico in bulk, rather than inserted into the financial system within the United States.

Because of the lack of transparency of their financial system, the Mexican financial services industry continues to be a facilitator for drug money movement. Although it is a sophisticated financial sector, obtaining financial information from the Mexican financial services industry remains difficult.

However, based on intelligence information from various DEA, ICE, and other United States law enforcement operations, we do know that once bulk currency is delivered to its intended recipients in Mexico, it can take a number of paths. Most commonly, bulk currency is deposited into the Mexican banking system through casas de cambio, centros cambiarios and banks, and then repatriated to the U.S. banking system through correspondent banking and bank note sales to United States institutions. While some of the bulk cash can be used to purchase precursors and equipment for methamphetamine manufacture, it also can be infused into the financial system through Mexican front companies or used to purchase real estate, businesses and other luxury assets in Mexico. In some instances, the bulk cash is converted to larger denominated United States dollars at casas de cambio or centros cambiarios for further smuggling to Colombia or for further smuggling to Panama for delivery to the Panama Free Trade Zone to purchase commodities on behalf of Colombian businesses. The combination of widespread corruption within Mexico, coupled with insufficient regulatory and criminal enforcement, makes disguising and moving drug proceeds in Mexico a relatively safe and simple task.

As part of our strategy to employ regulatory measures against money laundering systems that facilitate drug money laundering, DEA works closely with the FinCEN and other law enforcement agencies. DEA provided information to support the issuance of FinCEN's April 2006 Advisory to all United States financial institutions on the smuggling of bulk cash and the role of Mexican casas de cambio in the repatriation of those drug dollars into the United States banking system. DEA enjoys a very close working relationship with the OFAC. Much of the information used by OFAC to support its designations under the Kingpin and Specially Designated Narcotics Trafficker authorities is provided by DEA.

#### CONCLUSION

DEA continues to fight methamphetamine on all fronts, by targeting both the trafficking organizations and the financial proceeds they generate. As the international threat of methamphetamine spreads, cooperative efforts among agencies and nations become even more vital. Cooperative efforts and initiatives to combat methamphetamine production and control chemical shipments on an international scale are critical to DEA's ability to combat methamphetamine trafficking in the United States.

The *Synthetics Drug Control Strategy* provides DEA and contributing agencies a framework to continue the ongoing efforts and chart new strategies to achieve domestic and international progress against methamphetamine and other synthetic drug trafficking and abuse. DEA's core competency, the disruption and dismantlement of drug trafficking organizations impacting the United States, is an integral component to *Synthetics Drug Control Strategy*.

Thank you for the opportunity to appear before you today to discuss this important issue. I will be happy to answer any questions that you may have.

Written Testimony of Lieutenant Daniel L. Springer  
Commander – Missouri River Drug Task Force  
Gallatin County Sheriff's Office

Before the Senate Committee on Finance  
Hearing on "Breaking the Methamphetamine Supply Chain:  
Law Enforcement Challenges"  
September 12, 2006

Good morning Mr. Chairman, Senator Baucus, and members of the Committee. It is my great pleasure to be here today.

In 1992 the Missouri River Drug Task Force (MRDTF) was established in Montana as a regionally-proactive enforcement response designed to aggressively combat the increasing effects of dangerous drug use and distribution occurring within seven specific jurisdictions of concern. The Missouri River Drug Task Force has nine full-time investigators and covers an area of 17,000 square miles. Massachusetts and Connecticut combined, does not equal the size of our jurisdiction.

Financial allocations received from the "Byrne Memorial Grant" served as the fiscal catalyst behind the jurisdictional alignment. Operating beneath this collaborative investigative premise, MRDTF investigations, in conjunction with State and Local authorities, DEA, ICE, ATF, IRS and the National Park Service have been instrumental in the identification, disruption, and dismantling of Drug Trafficking Organizations (DTO) engaged in the distribution of dangerous drugs within Montana, Idaho, Washington, Oregon, California, and Utah.

Narcotic Officers across the country are facing multiple challenges regarding methamphetamine. The largest challenge is the fight itself. We are working with decreased funding, limited resources, a growing epidemic and vicious drug related crimes. Forty-two percent of Law Enforcement agencies recognize methamphetamine as the number one drug concern within their jurisdiction. There is no close second.

When I started as a patrol deputy ten years ago it was extremely rare to find even personal-use methamphetamine on the street. Today, it is not only common--it is the norm--and often in larger quantities than personal use. Methamphetamine hit our area like a freight train and we have seen nothing but a steady increase in the supply and the demand over the past ten years. If your area has not been hit by this epidemic, be very thankful; but prepare yourselves for something that you have never seen before.

The MRDTF has seen a consistent rise in drug activity throughout our jurisdiction over the past ten years. With this increase in drug activity, there has been an increase in crime. However, the primary funding source of the MRDTF, the Byrne Memorial Grant, has decreased by 62 % over the past five years.

Due to significant cuts in federal funding, the number of investigators needed to combat this epidemic has stagnated to a point where we are just maintaining rather than conducting pro-active, hard-hitting investigations.

The advantage of the Byrne Memorial Grant has been the ability to use the money in multiple ways. The Byrne Grants allow us to use the money for salaries, overtime, vehicles, drug "buy" money, informant payments, support staff salaries and many other areas. I would ask for a consistent and stable form of funding that does not keep agencies hanging in the balance from year to year. A funding source of this nature would allow for extended planning and extended expectations.

The Montana State Legislature has recently passed pre-cursor laws limiting access to items used in the making of methamphetamine. These laws have apparently been highly successful and we have seen a dramatic decrease in the number of "mom and pop" methamphetamine labs. However, we have seen a dramatic increase in the importation of methamphetamine. The methamphetamine imported to Montana is primarily coming from Washington, Oregon, Idaho, and Utah and eventually Mexico. The Super Labs of Mexico are supplying the majority of the methamphetamine within the United States and the factories used to make pseudoephedrine are shipping it to Mexico in mass quantities.

Directly linking methamphetamine to other crimes is not easy to do. Very few defendants admit to committing the crime, let alone admit to committing that crime while using meth or in an attempt to purchase meth. One thing we do know is that methamphetamine is no longer the "cheap" drug used by those who can't afford other drugs. In our area, the price of methamphetamine is currently twice the price of cocaine. With the increase in price, and the addictive nature of this drug, the pursuit of methamphetamine has increasingly become a criminal motive for violent and weapons-related criminal acts. The increasing frequency of burglaries, thefts, robberies, and assaults each serve to reflect the devastating social effects of methamphetamine on our local communities.

Through my very small window of the world, I see individuals getting killed over drugs. I see people losing family members to drugs; I see families and friends being torn apart due to drugs; and I see the productive citizens of our communities becoming victims of crimes due to drugs. I see the enormous toll that methamphetamine takes on an individual both mentally and physically in a very short period of time.

Money alone cannot solve the methamphetamine issue in Montana. However, without a sustainable source of financial support, the success and momentum of these historically complex and effective efforts will inevitably falter.

Local enforcement efforts are arguably the first and last line of defense in the war on methamphetamine. And while our communities cannot afford to lose the battle, the MRDTF cannot afford to wage the war alone.

**Senate Finance Committee Hearing  
Questions Submitted for the Record From Lt. Dan Springer  
Breaking the Methamphetamine Supply Chain: Law Enforcement Challenges  
September 12, 2006**

**Question 1:**

Given your limited resources, have you been able to take any other approaches to combating the meth epidemic besides Task Forces?

**Answer:**

Senator Baucus' office has recently assisted the Missouri River Drug Task Force in contacting the Internal Revenue Service with the hope that their criminal investigators would be available during appropriate investigations. The IRS has responded positively and we have already built a good working relationship with the local investigators. We have partnered with the Drug Enforcement Agency and are looking at ways to have a larger DEA presence within the Missouri River Drug Task Force. The Missouri River Drug Task Force has supported and assisted with legislative measures too limit the access to ingredients used in making methamphetamine. The Missouri River Drug Task Force has met with the US Attorney's office in Montana multiple times and has continued to build positive relationships with their office. The Montana State Department of Criminal Investigations has created a fusion center with the hope that all agencies will share intelligence information. In the last year, our task force has been sharing any and all appropriate information in an attempt to conduct intelligence based narcotics investigations.

**Question 2:**

Without challenging the security of classified information, can you please describe some inexpensive steps that you have taken?

**Answer:**

The Missouri River Drug Task Force has taken steps beyond enforcement of the law in order to combat the methamphetamine epidemic. The task force gives over 60 drug awareness talks per year to community organizations. These organizations range from school age parents, College courses, community groups, (lion's club, Rotary etc.). We have recently been assisting the local Department of Public Health and Human Resources with their Drug Endangered Children protocols. The Missouri River Drug Task Force has used forfeiture accounts to pay for our local Drug Treatment Court officials to attend national seminars.

**Testimony  
of  
Crow Tribal Chairman, Carl Venne  
Before the United States Senate Finance Committee**

---

Senate Finance Committee Hearing on Methamphetamine Law Enforcement /  
Money Laundering  
September 12, 2006

Good Morning, Honorable members Committee Members. I bring you greetings from Crow Country. My name is Carl Venne and I serve as Chairman of the great Crow Tribe of Indians, the Apsaalooka Nation. I was elected as Crow Tribal Chairman in November 2002 and I serve as an Advisory Council Member of the Montana Meth Project. I have more than three decades of experience serving in various tribal government roles. The majority of my professional experience has been as a police officer and law enforcement official, after obtaining a degree in law enforcement from the University of Minnesota at St. Paul.

The Apsaalooka Nation, often referred to as the Crow Reservation, is located in south-central Montana with the Wyoming state line as the southern border. Crow County includes over 2.5 million acres with its northwestern boundary approximately ten (10) miles from Billings, the largest city in the State of Montana. The Department of Interior Bureau of Indian Affairs ("BIA") Law Enforcement is responsible for covering 184 interstate miles and 3,500 road miles.

The Crow (Apsáalooke) Tribe of Indians has a membership of approximately 11,000, of whom 7,900 reside on the Crow Indian Reservation. Eighty-five percent speak Crow as their first language. The tribe calls itself "Apsaalooke," which means "children of the large-beaked bird." The Crow people, throughout the periods of various social change, have found strength and stability through cultural preservation. However, this strength and stability of the proud Crow people has met a new and dangerous enemy.

Crystal Methamphetamine (“Meth”) has become the number one threat to our Tribal communities. As Native Americans, we honor our families, culture, and clan system and traditional values, but our greatest resource is our children. The Crow children affected by this devastating drug hold the future of our Crow Nation. These children are crying for help, but we cannot always hear their cry. With this in mind, the Crow Tribe has declared War on Meth. Meth has violated our communities destroying lives, affecting school systems, undermining social values, affecting employers, taxing the health care system, and taxing the law enforcement and social workers. There is no entity or organization on the Crow Reservation that is exempt from the devastating destruction of Meth. The Crow Tribal Rural Domestic Violence Program reported that from January 2005 to 2006, 76 adults and 127 children were referred, and of these numbers, 75% of the referrals were meth related.

Within the last 10 years, meth has flourished on the Crow reservation like a plague. Devastatingly, our Crow people have created a Crow language term to identify meth, “Baächialiche”, which means white stuff due to its abundance in our Reservation culture. Meth has no discrimination to age, educational status, religion, or financial status. Instead, meth uses an individual’s weaknesses and strengths to maintain a presence within our communities. Using the strength of our family values, many non-Crow’s marry a Crow woman, which guarantees the individual a bond with the family and communities. Drug distributors have found a loop that allows them unlimited trafficking access on the Crow Reservation as well as other Tribal communities. The easy accessibility of transporting drugs through Interstate-90 and US Highway 212 has made the Crow and Northern Cheyenne Reservation easy targets for drug trafficking. The BIA Law Enforcement has responded to 23,995 calls for service to I-90, 95% were drug or alcohol related.

The consequence of this drug has been the death of many young adults. In 2005, there were five suicides on the Crow Reservation all were related to meth use. In 2006 on the Northern Cheyenne Reservation, there were three suicides in on week all of which were related to meth use. On average there is an average of 1 – 2 suicide attempts a week on

the Crow Reservation. The Crow people cannot wait for another organization to fix the Meth Epidemic that exists on our reservation, but we know we cannot fight this fight alone. The government, state and local agencies must combined efforts to fight the War on Meth. One recovering addict stated. "The worst part of using is coming down, life is not worth living for when you are in this zone, if you can image the worst feeling in the world that is how you feel, not even the smile of your own child can make you happy".

The meth dealers use the jurisdiction to their advantage. They move frequently on and off the reservation, from the reservation to reservation border towns and local cities. Big Horn County has not provided any relief to the drug problem on and near the reservation. The BIA Law Enforcement resources, which has jurisdiction on the reservation are spread thin. In 2005, the Crow BIA Law Enforcement covered 2.5 acres of land with 10 police officers and 1 guard. The total Indian Country law enforcement in Montana serviced 63,592 people with 138 sworn police officers at a ratio of 2.17 officers per 1,000 people covering 9.5 million acres of reservation land. The challenges we face on the Crow Reservation are not having adequate personnel to address the drug problems that exist on the reservation. Because of the staff shortage the BIA Law Enforcement are reactive rather than being proactive. The local Law Enforcement is not able to apply their attention in even a moderate scale to the drug problem. The Crow Tribe funded a special agent position that works directly with the BIA Law Enforcement, FBI, and DEA, but this too is not enough.

To obtain adequate resource the local, city, and federal law enforcement must maintain better communication. FBI and DEA need to address all levels of distribution, not only the high level distributors, but also the low level street distributors that have a major impact on reservation communities and boarder towns. A liaison between all entities would improve the relationship and allow for better data sharing and information. Address jurisdictional barriers with border towns that have not joined the Safe Trails Task Force. Other needed resources;



- More Officers
- Training for officers in drug interdiction
- Surveillance equipment
- Vehicles
- Additional funding and resources for prevention activities
- Alternative Sentencing and Family Court
- Reservation boundary boarder control

On August 22, 2006 six government entities signed an agreement to form a drug task force that would focus on southeastern Montana's Indian Reservations. The Crow/Northern Cheyenne Safe Trails Task Force has formulized key players that will work fulltime on addressing drug trafficking on the Crow and Northern Cheyenne Indian Reservations. The organizations that participated in the signing ceremony include the Crow Tribe, Northern Cheyenne Tribe, Drug Enforcement Agency, Federal Bureau of Indian Affairs, Bureau of Indian Affairs Office of Law Enforcement and Security, Colstrip Police Department. Each of the agencies has equal voice in the operation of the task force. Each agency will bring different resources to the table and the task force will be cross deputized to avoid jurisdictional barriers.

There are currently no mechanisms in place to share data and information from federal to local law enforcement entities. This has created a communication barrier, which also hinders the law enforcement's ability to track suspected drug dealers that travel from reservation to reservation. To improve the overall relation between all law enforcement agencies, there needs to be a data base to assist in tracking the drug dealers that are living on the reservation.

Again, I thank you for the opportunity to provide testimony before this honorable committee on a matter of critical importance to the Crow nation and to many other Native American communities. I believe the attention you have given this powerful enemy is a first step toward its defeat. Thank you.