

# **STATEMENT OF MICHAEL MERRITT**

**Deputy Assistant Director  
Office of Investigations  
United States Secret Service**

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Information and International Security**

**Committee on Homeland Security and Government Affairs**

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Mr. Chairman, I would like to thank you, as well as the distinguished ranking member, and other members of the subcommittee, for the opportunity to address you today regarding the Secret Service's investigative efforts into the production and distribution of high-quality, counterfeit U.S. currency (Federal Reserve Notes), which in this case are collectively referred to as the "Supernote".

While the public has long associated the Secret Service with our mission to protect the President of the United States and other national leaders, our agency was actually established in 1865 to protect our fledgling financial infrastructure through the investigation of the counterfeiting of U.S. currency. At that time, it was estimated that between one-third and one-half of the currency in circulation was counterfeit and the proliferation of this activity led to the formal establishment of the Secret Service.

For the past 141 years, the Secret Service has investigated counterfeiting offenses, developing a unique and world-renowned expertise. With our prevention-based approach, we have dismantled countless counterfeit manufacturing plants, seized millions of counterfeit notes both domestically and overseas, and provided education and training to foreign and domestic law enforcement in support of a unified effort to stop this activity. We have amassed the most complete and comprehensive library of counterfeit U.S. dollars produced around the world.

The worldwide use of the U.S. dollar as the currency of choice continues to grow. With as much as two-thirds of the approximately \$750 billion dollars of U.S. currency in circulation outside of our borders, the U.S. dollar is truly a global currency. In addition to "dollarized" economies – those nations that have adopted the U.S. dollar as their own currency – businesses and individual interests worldwide depend upon the integrity and stability of the U.S. dollar. This is why counterfeiting activity can have a profound effect on not only our economy, but the international markets as well. Counterfeiting reduces consumer confidence in our currency and has the

potential to affect the perception, and thereby the strength, of the dollar and all dependent economies.

### **Supernote Origin and Statistics**

The Supernote family of counterfeit notes was first detected in 1989. Its primary significance is that it is of such high quality that it often goes undetected until it reaches the Federal Reserve Bank. Since its initial discovery, the investigation into its origin and distribution has been a top priority for the Secret Service. The Supernote investigation is an ongoing strategic case with national security implications. This investigation has spanned the globe, involving more than 130 countries and resulting in more than 170 arrests.

The Supernote primarily circulates outside of the United States. Though collectively referred to as the Supernote, it is actually a family of different versions of \$100 and \$50 denomination counterfeit notes, all of which are circularized by the Secret Service. These sophisticated counterfeits range from older series \$100 notes which bear the smaller portrait, to counterfeits of more recently redesigned 'big head' notes - to include the latest version of the 2003 series.

The Supernote is printed using the same intaglio and typographic printing methods as those employed by the U.S. Bureau of Engraving and Printing in the production of genuine U.S. currency. The Supernote is also printed on reverse-engineered paper which is of similar composition to that used in the printing of genuine U.S. currency. Present in the Supernote paper are security features such as red and blue security fibers, a security thread, and a watermark. This family of counterfeit notes is continually evolving as we discover better, more deceptive versions of the Supernote. These new versions show corrections or improvements in the flaws which are used by banking and law enforcement to detect them.

Through extensive investigation, the Secret Service has made definitive connections between these highly deceptive counterfeit notes and the Democratic People's Republic of Korea (DPRK). Our investigation has revealed that the Supernote continues to be produced and distributed from sources operating out of North Korea.

The first Supernote was detected by a Central Bank cash handler in the Philippines more than 16 years ago. Since then, the Secret Service has seized approximately \$50.0 million of the Supernote globally, which equates to seizures of approximately \$2.8 million annually. To provide a frame of reference, during fiscal year 2005, the Secret Service seized over \$113.0 million in counterfeit U.S. currency. The amount seized is also comparatively low in contrast to other known counterfeits. For example, during the same timeframe as that of the Supernote investigation, our investigation into counterfeit currency produced in Colombia yielded seizures in excess of \$380.0 million. The amount seized is also low when compared to the large volume of genuine U.S. currency in circulation worldwide.

### **Quality vs. Quantity**

The high quality of these notes, and not the quantity circulated, is the primary cause of concern for the Secret Service. As illustrated by the aforementioned statistics, the Supernote is unlikely

to adversely impact the U.S. economy based upon the comparatively low volume of notes passed. However, the introduction of the Supernote into a micro economy can have a significant influence, not only due to the monetary losses sustained as a result of the Supernote passes, but also because of the loss of integrity of the U.S. dollar. An example of this effect was seen in Taiwan in 2004 and in Peru in 2005. In both cases, many financial institutions and merchants refused to accept any \$100 notes after the discovery of small caches of Supernotes.

It should be noted that the Supernote, while highly deceptive, is detectable with minimal training. The manual detection process can, however, hinder effective detection. There are also machines which are commercially available that can detect the Supernote. Not all banknote processing equipment has this advanced capability.

### **Investigative Links/Challenges**

Throughout the 1990s, numerous North Korean citizens traveling throughout Europe and Asia, working in an official capacity, were apprehended by law enforcement for passing large quantities of the Supernote. In each of these cases, the North Korean officials evaded prosecution for these crimes based upon their diplomatic status.

State-sponsorship of the Supernote poses unique and considerable challenges in addressing this issue through traditional law enforcement channels. In response, the Secret Service has developed and employed a three-pronged strategy to address the distribution of this counterfeit.

The first part of this strategy focuses on containment based upon an aggressive investigative response to all appearances of this counterfeit currency. Secret Service agents posted around the world work closely with their foreign counterparts to identify and arrest distributors of this counterfeit as rapidly as possible. Coordination of large-scale investigations internationally can be very difficult, particularly when cooperative efforts and counterfeiting laws differ from country to country.

The second part of our strategy focuses on disruption. With the support of the international law enforcement community through Interpol, this strategy is designed to deny North Korea the supplies and equipment required to manufacture high-quality counterfeit notes. The Secret Service also maintains an ongoing partnership with representatives in the printing industry which contributes to this objective. In support of our ongoing disruption tactics, Interpol issued an "Orange Alert" to all of the Interpol member countries in April of 2005, informing them of the illicit counterfeiting activities emanating from North Korea. This notice called for members of the printing industry to voluntarily refrain from selling certain highly-sensitive printing supplies and equipment to North Korea.

The third part of our strategy focuses on education. The Secret Service provides detailed training seminars to financial institutions and law enforcement personnel across the globe on the detection of counterfeit currency. These seminars are designed to equip cash handlers with the knowledge and understanding necessary to detect these counterfeit notes. In the past year, the Secret Service has provided 138 training seminars in 23 countries, training approximately 7,800 financial institution and law enforcement personnel in support of our education strategy.

## **Conclusion**

Mr. Chairman, that concludes my prepared statement, and I would be pleased to answer any questions that you or other members of the subcommittee may have.