

STATEMENT  
OF  
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BEFORE THE  
UNITED STATES HOUSE OF REPRESENTATIVES  
COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM  
SUBCOMMITTEE ON NATIONAL SECURITY AND FOREIGN AFFAIRS  
ON  
“TRANSNATIONAL DRUG ENTERPRISES”  
MARCH 3, 2010

Chairman Tierney, Congressman Flake, Members of the Committee, I appreciate the opportunity to appear before you today to discuss the role played by the Treasury Department in countering the threat that transnational drug enterprises pose to our country and the world. In particular, I will describe Treasury’s implementation of the Foreign Narcotics Kingpin Designation Act, commonly known as “The Kingpin Act,” and Executive Order 12978, “Blocking Assets and Prohibiting Transactions with Significant Narcotics Traffickers.” These authorities, in use by Treasury since 2000 and 1995 respectively, provide powerful complements to the dedicated efforts of U.S. and foreign law enforcement authorities. First, though, I would like to describe the impact of our sanctions against narcotics traffickers.

**Impact of Counter-Narcotics Sanctions**

Colombian narcotics traffickers have noted that they fear three things: 1) arrest and extradition to the United States; 2) seizure of assets; and 3) **the Office of Foreign Assets Control’s (“OFAC”) Specially Designated National’s List (“SDN List”)**. Interviews of Mexican individuals who had been placed on the SDN List suggest that Mexican traffickers feel the same way. Traffickers fear OFAC SDN List because OFAC sanctions work. Drug traffickers rely on a vast support network, including money launderers, transportation, logistics, procurement, communications, security and other personnel, to support their nefarious activities.

They need to disguise their enormous profits in ostensibly legitimate businesses, such as drug stores, pharmaceutical manufacturers, real estate companies, a beach front resort, an armored truck company, a restaurant, a retail chain, cattle businesses, a working dairy farm, daycare centers, and money service businesses. These illicit businesses undermine the integrity of the financial system. With our law enforcement partners in the U.S. and abroad, OFAC is working hard to identify the individuals working on behalf of or materially assisting the drug trafficking organizations. OFAC sanctions enable us not only to protect the integrity of the financial system, but also to strike hard at the heart of the financial operations of illicit actors.

### **Treasury's Counter-Narcotics Mission**

Treasury's efforts to combat narcotics trafficking and other threats to our national interests are headed by Under Secretary for Terrorism and Financial Intelligence Stuart Levey, with our sanctions authorities delegated to the Office of Foreign Assets Control. OFAC administers and enforces economic and trade sanctions based on US foreign policy and national security goals against targeted foreign countries and regimes, terrorists, international narcotics traffickers, those engaged in activities supporting the proliferation of weapons of mass destruction, and others who are threats to the national security, foreign policy, or economy of the United States. OFAC acts under the national emergency powers of the President, as well as authority granted by specific legislation, to impose controls on transactions and freeze assets under U.S. jurisdiction.

The authorities delegated to OFAC are national security and foreign policy tools that provide power and leverage against a foreign country, regime or non-state actors, such as foreign narcotics traffickers and terrorists. One of our most powerful instruments, the Specially Designated Nationals List is used to identify, expose, isolate, and disrupt foreign adversaries with the intended result of denying them access to the United States financial and commercial

system and immobilizing their resources. OFAC's authorities are administrative in nature; but for persons subject to U.S. jurisdiction, violating OFAC sanctions carries both civil and criminal penalties.

### **The Kingpin Act**

On December 3, 1999, the President Clinton signed into law the Foreign Narcotics Kingpin Designation Act (the "Kingpin Act"), which prohibits transactions with, and blocks all property and interests in property, subject to U.S. jurisdiction, of, significant foreign narcotics traffickers identified by the President. At OFAC, we refer to these individuals as "Tier I" narcotics traffickers. The Kingpin Act provides for the President to identify "significant foreign narcotics traffickers" prior to June 1 of every year and to report those actions to the Congress. Since 2000, 82 Tier I traffickers have been identified, including 66 individuals and 16 entities. These Tier I traffickers are located in many different countries, including Mexico, Afghanistan, Pakistan, Burma, Colombia, and Venezuela. OFAC works with other agencies, including the Drug Enforcement Administration ("DEA"), the State Department, and the Department of Defense ("DOD"), to identify, track, and address drug trafficking threats worldwide.

The Kingpin Act also provides authority for OFAC to designate individuals and entities that materially assist in or provide support to the international narcotics trafficking activities of Tier I traffickers or those that are owned or controlled by, or acting for or on behalf of, Tier I traffickers or the designated kingpins, allowing OFAC to reach the kingpins' networks of front companies, facilitators, and strawmen. In addition, these "Tier IIs" – also referred to as derivative designations – allow us to target the money launderers, the family members that are complicit in narcotics trafficking activities, the criminal members of the organization, and the transportation, logistics, procurement, and communications cells that comprise the financial and support networks of drug trafficking organizations. It is these support networks that are most

vulnerable to disruption by financial sanctions, and it is here that we have concentrated our efforts.

### **The Kingpin Act: Mexico**

Last year, President Obama, recognizing the urgency of the threat posed by Mexican traffickers to the safety and security of the United States and our Mexican neighbors, identified three Mexican narcotics trafficking organizations as significant foreign narcotics traffickers: the *Sinaloa Cartel*, *Los Zetas*, and *La Familia Michoacana*. In addition to the three organizations President Obama identified last year, President George W. Bush identified the *Gulf Cartel*, the *Beltran Leyva Organization*, *Arrellano Felix Organization*, *Amezcuca Contreras Organization*, *Arriola Marquez Organization*, and the *Carrillo Fuentes Organization* as Tier I traffickers. OFAC continues to target these and other drug trafficking organizations aggressively to incapacitate their networks.

Since 1999, 82 Tier I traffickers have been identified, 37 of which are Mexican. Of the 37 Mexican Tier I traffickers, 28 are individuals, including Joaquin “Chapo” Guzman Loera, Ismael “Mayo” Zambada Garcia, Osiel Cardenas Guillen, and Ignacio “Nacho” Coronel Villarreal, and nine are drug trafficking organizations.

Since 2000, OFAC has designated just over 300 “Tier II” individuals and entities working for or on behalf of Mexican traffickers and their organizations. OFAC’s Tier II designations have targeted the finances of the *Arrellano Felix Organization*, the *Arriola Marquez Organization*, the *Amezcuca Contreras Organization*, the *Beltran Leyva Organization* and also key *Sinaloa Cartel* leaders, Joaquin “Chapo” Guzman Loera, Victor Cazares Salazar, and Ismael “Mayo” Zambada Garcia.

In December 2007, OFAC, in concert with other U.S. and Mexican authorities, struck at the *Sinaloa Cartel* by targeting a key financial node controlled by Mexican money launderer

Blanca Cazares Salazar and the 19 companies and 22 individuals that comprise her financial network. Included in this designation action were a popular Tijuana restaurant, several unregulated money service businesses, and a 20-store chain of jewelry and cosmetic boutiques. Three months later, Mexican authorities arrested six associated individuals in Mexico City, including Blanca's former husband and a key business associate.

In October 2008, OFAC designated ten individuals and six entities associated with a pseudoephedrine diversion cell operating on behalf of the *Amezcuca Contreras Organization* – a methamphetamine organization. The focus of the designation was *Productos Farmaceuticos Collins*, a company long suspected of diverting pseudoephedrine to methamphetamine producers. After the designation, the Mexican Office of the General Prosecutor, known in Mexico as the *Procuraduría General de la República* or “PGR” – the agency responsible for enforcing federal crimes in Mexico, came forward and linked this pseudoephedrine diversion cell with *La Familia Michoacana*. U.S. banks blocked approximately \$2.7 million worth of funds in the United States related to this designation, and a \$2 million contract to purchase an airplane was cancelled as a result of this designation.

OFAC, of course, works closely with its U.S. counterparts. In July 2009, OFAC designated four *Gulf Cartel* and *Los Zetas* leaders: Jorge Eduardo Costilla Sanchez, Ezequiel Cardenas Guillen, Heriberto Lazcano Lazcano, and Miguel Trevino Morales. On the same day, the U.S. Department of Justice unsealed charges against Miguel Trevino and other *Gulf Cartel* members, and the State Department announced rewards of up to \$20 million for various *Gulf Cartel* and *Los Zetas* members, including Cardenas, Lazcano, and Trevino. These efforts support those of Mexican authorities, who are also targeting these individuals, including by offering rewards of up to 30,000,000 pesos for information leading to their arrest.

In October 2009, OFAC designated Mexican national Edgardo Leyva Escandon, five members of his financial network, and one Mexico-based company for their ties to the *Arellano Felix Organization* (sometimes called the Tijuana Cartel or the AFO), Francisco Javier Arellano Felix, or Tijuana Cartel member Edgardo Leyva Escandon himself. Leyva Escandon is the AFO's primary ammunition and firearms supplier.

Recently, in December 2009, OFAC exposed 22 individuals and ten companies connected to the *Beltran Leyva Organization* and the now deceased Marcos Arturo Beltran Leyva. These *Beltran Leyva* operatives control companies involved in air and vehicle shipping, electronics retailing, the import/export of health products, business consulting, and hospitality services. In the weeks following this action, Marcos Arturo Beltran Leyva was killed by the Mexican navy during a counterdrug raid in Cuernavaca.

Mexican President Calderon's resolve to combat drug trafficking organizations in Mexico has led to increased cooperation and sharing of information between Mexican authorities and OFAC. For example, since President Calderon took office in 2006, Mexican law enforcement has consulted with OFAC regarding seizure warrants issued against the *Arellano Felix Organization*. OFAC's May 2007 designation targeted Ismael "Mayo" Zambada and his network of key family members and criminal associates. Vicente Zambada Niebla, the son of "Mayo" who was among the May 2007 designees, was arrested in March 2009.

OFAC sanctions work in part because they expose and delegitimize businesses owned or controlled by drug traffickers, identifying them as money laundering fronts used to penetrate the legitimate economy with the proceeds of illicit action. In addition, by exposing traffickers publicly, OFAC sanctions can remove barriers to action by other authorities, who might otherwise have hesitated to act against these powerful and violent organizations while the identities of key operatives and front companies were not publicly known.

OFAC continues to target organizations even as they take measures to evade OFAC sanctions. OFAC does not relax its attention after one round of designations. For example, an OFAC investigation revealed six individuals and two entities to be assisting previously designated *Productos Farmaceuticos Collins* evade OFAC sanctions; on September 3, 2009 OFAC designated those individuals and entities. The *Arellano Felix Organization*, which is near decimation, has been an OFAC target in seven Tier II actions.

### **The Kingpin Act: Afghanistan/Pakistan**

Since 2001 six Tier I traffickers from Afghanistan have been identified. Two of the Tier I traffickers from Afghanistan, Haji Bashir Noorzai and Haji Baz Mohammad, were subsequently captured and convicted on drug trafficking charges in the United States. Both of these individuals supported the Taliban with their illicit drug proceeds. The most recent Tier I trafficker from Afghanistan is an entity. On May 29, 2009 President Obama identified the *Haji Juma Khan Organization*, an international drug trafficking organization based in the Baluchistan region of Afghanistan, as a significant foreign narcotics trafficker. The *Haji Juma Khan Organization* deals in opium, morphine, and heroin. Drug Enforcement Administration Acting Administrator Michele M. Leonhart has noted that proceeds from the *Haji Juma Khan Organization* have funded terrorist activities of the Taliban. Haji Juma Khan himself was captured in 2009 and is awaiting trial in the U.S. OFAC is working closely with other U.S. government agencies to ensure that Kingpin Act targeting in Afghanistan compliments our ongoing military and law enforcement efforts there.

Since 2001, six Tier I traffickers from Pakistan have been identified. Among these Pakistani Tier I traffickers is the notorious international criminal Dawood Ibrahim, who was identified as a significant foreign narcotics trafficker on June 1, 2006. The *Dawood Ibrahim Organization*, also known as the *D Company*, was identified as a Tier I trafficker on the same

day and is active in Pakistan, India, and the United Arab Emirates. Another Pakistani Tier I trafficker is Shabaz Khan, who was identified as such by the President on June 1, 2007. He is currently serving a life sentence in the United Arab Emirates for drug trafficking and just recently lost the final appeal of his drug trafficking conviction by the Federal Appeals Court in Abu Dhabi, United Arab Emirates. On November 27, 2007, OFAC targeted Shahbaz Khan and his organization with derivative designations. OFAC designated nine individuals and 13 companies located in the United Arab Emirates, Pakistan, Spain, Germany, the Netherlands, and Belgium.

### **The Kingpin Act: Southeast Asia**

Since 2001, the President has identified five significant foreign narcotics traffickers from Southeast Asia. OFAC has focused its Tier II efforts against two of these significant foreign narcotics traffickers – the *United Wa State Army* (“UWSA”) and one of its senior leaders, Wei Hsueh Kang. On November 3, 2005, OFAC designated 11 individuals and 16 companies that formed part of the commercial network led by the UWSA and Wei Hsueh Kang. Included among the individuals was one of Wei Hsueh Kang’s wives and her brother, who were acting as front persons but were also involved in narcotics trafficking activities. On November 13, 2008, OFAC expanded sanctions against the UWSA and Wei Hsueh Kang by designating an additional 26 individuals and 17 companies, which are located in Burma, Hong Kong, Singapore, and Thailand.

### **The Kingpin Act: Colombia**

Since 2003, the President has identified three Tier I traffickers from Colombia, two of which are entities. On May 29, 2003, the President identified the *Autodefensas Unidas de Colombia* (“AUC”) and the *Fuerzas Armadas Revolucionarias de Colombia* (“FARC”) as



significant foreign narcotics traffickers. On May 29, 2009, the President identified Daniel Rendon Herrera (a.k.a. Don Mario) as a Tier I trafficker.

Most of OFAC's Kingpin Act derivative designations have been focused against the FARC. Since the presidential identification of the FARC pursuant to the Kingpin Act in 2003, OFAC has designated 43 key leaders of the FARC. In addition, OFAC has also exposed FARC financial networks, FARC international representatives, and foreign government officials providing material support to the FARC's narcotics trafficking activities.

In the past two years, OFAC has targeted a wide array of FARC members and supporters. Multiple currency exchange businesses in Colombia have been designated for their support of the FARC's narcotics trafficking and money laundering activities. OFAC's actions against the FARC have also impacted the FARC's ability to garner and maintain support internationally. In September 2008, OFAC designated two Venezuelan government officials and one former Venezuelan government official for materially assisting the narcotics trafficking activities of the FARC. On September 30, 2008, OFAC designated eight FARC International Commission members operating in the following 11 foreign countries: Argentina, Chile, Uruguay, Paraguay, Brazil, Peru, Ecuador, Venezuela, Panama, Mexico, and Canada. On January 14, 2009, OFAC designated three more FARC International Commission members who represent the organization in Spain, France, Italy, Switzerland, and Australia.

OFAC's continued targeting of the financial and support networks of the FARC further enhances the damage inflicted on the FARC's capabilities, denies this narco-terrorist organization access to both the Colombian and U.S. financial systems, and impedes its abilities to obtain materials and support. OFAC's targeting of the FARC's financial and support networks complements the efforts of the Colombian government and U.S. law enforcement agencies

against the FARC and results in overall increased impact against this narco-terrorist organization.

### **The Colombia Model**

The Kingpin Act is modeled upon the successful Colombia program – the original Specially Designated Narcotics Trafficker (“SDNT”) program. In 1995, President Clinton, invoking his powers under the International Emergency Economic Powers Act (IEEPA), found that there was a significant threat to the national security, foreign policy and economy of the United States posed by Colombian narcotics traffickers. On October 21, 1995, President Clinton signed Executive Order 12978, “Blocking Assets and Prohibiting Transactions with Significant Narcotics Traffickers.”

The SDNT program has enjoyed enormous success in the United States and Colombia. OFAC’s work has been instrumental in dismantling the *Cali Cartel* and also key elements of the *Norte Valle Cartel*. Additionally, the vigilance and cooperation of the Colombian government and the Colombian business and financial community is extraordinary. OFAC, through its Attaché office, works closely not only with other elements of the U.S. Embassy in Bogota, Colombia and U.S. law enforcement, but also with the Colombian *Fiscalia* (Attorney General’s office), the Colombian National Police, and the Colombian Financial Intelligence Unit (the *UIAF*), to identify and designate the financial and commercial networks of Colombian traffickers. Non-U.S. companies that have no obligation to comply with U.S. sanctions often refuse to work for, supply, or otherwise do business with designated commercial enterprises or employ persons on the SDN List, thereby isolating them commercially. Many Latin American banks, for example, have advised OFAC that they close the accounts of all persons (individuals and entities) on the SDN List as a matter of risk avoidance. As a result, designated persons are impeded from functioning effectively in the legitimate economy or business world. The

vigilance of non-U.S. businesses and financial institutions is a significant contributor to the program's success.

In September 2006, OFAC's success in exposing the networks of two notorious *Cali Cartel* leaders, Miguel and Gilberto Rodriguez Orejuela, alongside dedicated and aggressive efforts by the Justice Department and other law enforcement agencies, culminated in guilty pleas by the two cartel leaders. The Rodriguez Orejuela brothers not only admitted to over two decades of drug trafficking, but also confessed to laundering the proceeds through the network of companies that OFAC had targeted in over a dozen investigations from 1995 to 2004. They agreed to a forfeiture in the amount of \$2.1 billion in assets to be levied against their narcotics-related assets found anywhere in the world, as well as all Rodriguez Orejuela business entities worldwide. These entities are mainly the 246 front companies already designated by OFAC over a nine year period in 12 separate OFAC designation actions.

In connection with the Rodriguez Orejuela brothers' guilty pleas, 28 of their family members, who were previously designated as SDNTs, entered into an agreement with the U.S. Department of Justice and the U.S. Department of the Treasury in September 2006. As part of this agreement, the 28 family members were obligated to identify all "forfeitable property" financed in whole or in part with narcotics proceeds and to identify all other assets of any nature whatsoever that are owned or controlled by any family member who is a party to the agreement. In exchange, the U.S. Government agreed to remove the family members from SDN List after certain conditions were fulfilled, including final forfeiture and/or divestiture of all forfeitable property under the agreement.

OFAC worked closely with the Colombian authorities to ensure that these Rodriguez Orejuela family members were complying with this agreement. It was discovered, however, that certain parties to this agreement had hidden assets during the negotiation of this agreement in

2006 and continued to hide them. On January 28, 2009, OFAC designated two new entities that were among the assets being hidden by certain Rodriguez Orejuela family members. Colombian authorities followed up on the OFAC action with a major operation against the Rodriguez Orejuela family. In late February 2009, Colombian authorities arrested multiple Rodriguez Orejuela family members. The charges against the family members arrested in February 2009 included the laundering of narcotics proceeds and fronting for assets obtained with illicit proceeds. In addition, many assets were seized as part of this operation. Colombia's Attorney General at the time acknowledged the close working relationship between the Colombian authorities and OFAC on this case as a key factor in the success of this operation. Many of the individuals arrested in February recently pleaded guilty to money laundering charges before a Colombian judge. They have received prison sentences and have agreed to forfeit their rights and interests in assets worth millions of U.S. dollars. Again, the combination of OFAC sanctions with Colombian and U.S. law enforcement actions has led to the dismantling of one of the most important drug cartels in history. OFAC will continue to monitor the Rodriguez Orejuela family member's compliance with the agreement.

In recent actions taken under Executive Order 12978, OFAC has targeted Colombian drug trafficker networks centered in Medellin but operating in both Colombia and Mexico. The working relationship between Colombian and Mexican drug traffickers is well known. In some instances, Colombian traffickers have become as comfortable living and operating in Mexico as in their native country. Some Colombian drug traffickers have begun to spend much of their time and money in Mexico and, thus, have established financial networks in both countries.

On March 28, 2007, OFAC designated Medellin-based drug trafficker Fabio Enrique Ochoa Vasco along with 45 companies and 64 individuals in his extensive criminal and financial network. Many of these companies were based in Medellin, but two of them were located in

Mexico. Also designated in this action was Ochoa Vasco's Mexican wife, who holds assets on his behalf. On June 12, 2009, OFAC designated additional front companies associated with Ochoa Vasco and his key financial associates. Five of these are located in Guadalajara, Mexico. Following the June 12<sup>th</sup> designations, Colombian authorities arrested several members of the Ochoa Vasco organization on money laundering charges and seized many properties, including a water park.

Another Colombian trafficker from Medellin who has strong ties to Mexico is Pedro Antonio Bermudez Suaza (alias "El Arquitecto"). On May 27, 2009, OFAC designated Bermudez Suaza and 13 individuals and 14 companies in his network. Bermudez Suaza began his career in narcotics trafficking many years ago as a pilot smuggling cocaine for members of the old Medellin drug cartel. In Mexico, Bermudez Suaza owned an aviation company, a currency exchange business, and a real estate company that owned numerous properties throughout the country. Bermudez Suaza even moved much of his family to Mexico. However, he still appears to have invested most of his drug profits into his home country. Among the notable properties controlled by Bermudez Suaza through front persons is Hosteria Llanogrande, a resort frequented by professional soccer teams. This resort, which is located near the international airport in Rionegro, Antioquia, was also designated by OFAC.

### **Cooperation with Other Agencies**

OFAC does not impose sanctions actions in a vacuum. In particular, we gratefully acknowledge the outstanding investigative and enforcement work of the DEA. While OFAC works with all the law enforcement agencies, as well as with State, Justice, Defense, Homeland Security, and the Intelligence Community, and has enjoyed many successes with them, OFAC's counter-narcotics designations sections and our three foreign Attaché offices work especially

closely with DEA and its agents in the field. Instrumental to OFAC's success is DEA Financial Operations.

## **Conclusion**

OFAC's counter narcotics sanctions programs under the Kingpin Act and Executive Order 12978 provide a powerful mechanism for acting against the threat to the United States posed by foreign narcotics cartels. OFAC's employment of these sanctions programs provides a growing opportunity for partnership in combating the scourge of the drug trafficking organizations. It is a force multiplier, and it presents opportunities not only in support of efforts by DEA and other U.S. criminal enforcement agencies, but also to foreign authorities. The Kingpin Act and Executive Order 12978 are important elements in achieving a unity of effort among U.S. federal, state, and local agencies and with our foreign government counterparts, and in disrupting the infrastructures of the drug trafficking organizations and making the cost personal to the individuals who lead them.

Thank you very much for the opportunity to be here today. I welcome any questions.