



**UNITED STATES OF AMERICA–MEXICO
BI-NATIONAL CRIMINAL PROCEEDS STUDY**



**Homeland
Security**

Joint Message from Assistant Secretary John Morton, U.S. Immigration and Customs Enforcement, and Director Grayling G. Williams, DHS Office of Counternarcotics Enforcement

We are pleased to present the Bi-National Criminal Proceeds Study, a significant inquiry into the laundering of cash proceeds of organized transnational crime. It is well understood that the primary goal of organized crime is profit. It is also well known that an extraordinary amount of cash – estimates range from \$19 to \$29 billion – travels annually from the United States into Mexico to fuel the operations of the increasingly violent and brazen criminal enterprises involved in drug trafficking. What has not been as well understood by law enforcement is how and where that cash is collected, transported and delivered. To effectively dismantle these organizations, and to curtail the profit motive, we need to interrupt the flow of their proceeds.

With this in mind, we commissioned this study, which provides critical assessments of money collection sites, transport routes and chokepoints, and is based on actual evidence of the supply lines used to facilitate the drug trade and the movement of cash proceeds. This information will enable the United States and Mexico to strategically and tactically target law enforcement operations to attack the ability of criminal organizations to move their monies. With this study, and our resulting tactical response, we send a resounding message—we intend to cut the financial lifeline of these criminal organizations.

This study, prepared in collaboration with the Government of Mexico, underscores a shared commitment to fighting transnational criminal organizations and the violence and insecurity they breed. It is an example of the increasing coordination and cooperation by the United States and Mexico to confront shared national security threats. This study provides essential information that will inform a bi-national interagency strategy to attack the financial operations of transnational criminal enterprises.

We would like to thank and commend those in Mexico and the United States who contributed to the study. We pledge the active efforts of our agencies, in conjunction with all of our partners, to ensure that it is an important step in the fight against transnational organized crime.

A handwritten signature in blue ink that reads "Grayling G. Williams".

Grayling G. Williams
Director
Office of Counternarcotics Enforcement

A handwritten signature in blue ink that reads "John Morton".

John Morton
Assistant Secretary
U.S. Immigration and Customs Enforcement

PROJECT PARTNERS

The United States Department of Homeland Security’s (DHS) Office of Counternarcotics Enforcement (CNE) and U.S. Immigration and Customs Enforcement (ICE), in partnership and collaboration with the Government of Mexico Secretaría de Hacienda y Crédito Público (SHCP) Unidad De Inteligencia Financiera (UIF) led the effort to produce this bi-national study. Booz Allen Hamilton provided the project support services.

Project Partners	
AGENCY	OFFICE
Department of Homeland Security (DHS) U.S. Government Project Leads: Office of Counternarcotics Enforcement (CNE) U.S. Immigration and Customs Enforcement (ICE)	<ul style="list-style-type: none"> · Office of Counternarcotics Enforcement (CNE) · U.S. Immigration and Customs Enforcement (ICE) <ul style="list-style-type: none"> – ICE Regional Special Agent in Charge (SAC) offices in Laredo; El Paso; Houston; Atlanta; Baltimore; Chicago; Detroit; Miami; New York; Philadelphia; Phoenix; Tucson; Seattle; and Washington, DC. – ICE Bulk Cash Smuggling Center · Office of General Counsel (OGC) · Office of Policy · Office of Intelligence and Analysis (I&A) · Office of Procurement Operation (OPO) · U.S. Customs and Border Protection (CBP) · U.S. Secret Service (USSS)
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Procuraduría General de la República (PGR)/Attorney General’s Office	<ul style="list-style-type: none"> · Subprocuraduría de Investigación Especializada en Delincuencia Organizada (SIEDO)/Deputy Attorney General's Office for the Investigation of Organized Crime

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1. EXECUTIVE SUMMARY

This bi-national study reveals the very effective means by which Transnational Criminal Enterprises (CE) move criminal proceeds from the United States into Mexico and beyond. The CEs operating across the U.S.-Mexico border have spent years developing a detailed understanding of enforcement operations and refining their approach to bulk cash smuggling and laundering of other forms of criminal proceeds. The result is a highly resilient illicit supply chain designed with extensive compartmentalization of operational knowledge throughout the layers of the various organizations involved, posing a significant interdiction challenge.

The study presents a description of the criminal proceeds supply chain, including the following:

- A strategic picture of the movement of criminal proceeds from the United States into Mexico and on to third countries
- The organizational and communications that CEs employ to smuggle criminal proceeds
- The cash consolidation hubs and key routes in the United States and Mexico
- The supply chain nodes where criminal proceeds are converted to legal goods, services, or funds
- The location of the pull signal in the system, which identifies the driver behind the timing and volume of the criminal proceeds flow through the supply chain

By employing a supply chain, business processes-oriented methodology similar to that used in commercial supply chain vulnerability analysis, the study identifies and analyzes the inter-relationships, logistics, and communications required for successfully smuggling criminal proceeds out of the United States, into Mexico, and on to third countries. The methodology crosses operational and international boundaries, with a focus on identifying the processes and functions that have the greatest impact on the overall supply chain's performance and therefore the greatest impact on the CE's ability to fund profitable operations. The resulting comprehensive strategic overview and common lexicon facilitate communication and resource allocation for all stakeholders.

This study identifies four distinct roles that enable key processes and functions within the supply chain: Cartel Accountant (CA), Operations Manager (OM), Transportation Coordinator (TC), and Money Broker (MB).

Table 1-1 summarizes the study's objectives and presents an overview of how the study's findings satisfy each of those objectives.

Table 1-1. Study Objectives as Identified by the U.S. Government and the Government of Mexico

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BI-NATIONAL STUDY OBJECTIVE	MET	STUDY RESULTS
Draw on information related to U.S. trends and consolidation points for criminal proceeds smuggling, including previous analysis completed by CNE, ICE and where possible other agencies	✓	Provides a strategic picture of the movement of criminal proceeds from the point of origin to the ultimate destination
Provide clarity on the subsequent movement of funds smuggled into Mexico, including an assessment of the extent to which criminal organizations rely on illicit activities	✓	Documents each modality utilized and by which criminal enterprises in order to allow for more targeted operations
Work with U.S. and GOM Officials to identify geographic locations in Mexico where the proceeds of criminal activity are consolidated and stored, which CE controls the location and where the funds move to	✓	Identifies the movement of criminal proceeds through Mexico and their associated organizations, operations and destinations
Identify points of egress for proceeds being smuggled out of Mexico to develop an understanding of the scope of the problem and destination of the proceeds by country	✓	Provides a detailed breakdown of the means and modes of the movement of criminal proceeds to third countries
Identify trends related to transactions in Mexico that occur before the illicitly derived currency is integrated into the formal financial system	✓	Characterizes the supply chain nodes where criminal proceeds are converted to legal goods, services or funds; identifies diverse methods (typologies) by which CEs place criminal proceeds into the financial system
Identify and define the challenges and problem sets, and suggest how the U. S. Government and the GOM could improve cooperation to combat these problems	✓	Details the most vulnerable nodes in the supply chain and identifies intelligence gaps that would provide a clearer understanding of the flow

2. BACKGROUND

The United States and Mexico share a nearly 2,000-mile border and a host of problems that plague communities on both sides. Narcotics smuggling, which fuels corruption, weapons trafficking, kidnapping, and violent crime, has risen to disturbing levels over the past few years. Mexican CEs, often referred to as cartels¹ or drug trafficking organizations, ship indigenous drugs (e.g., marijuana, methamphetamine, and others) and imported drugs (principally Colombian cocaine) into the United States. The latter began in the 1980s, when Colombians began outsourcing to Mexican CEs most² of their U.S. cocaine business (cocaine smuggling across the U.S. border and sales inside the United States), retaining production in Colombia and transport into Mexico. This change resulted in part from the increased U.S.-Colombian law enforcement and military cooperation that began in the 1990s. Colombian CE leaders especially began to fear extradition to the United States, as with Gilberto the “Chess Player” Rodríguez (then head of the Cali CE) and “Don Diego” Montoya (then head of the Norte Del Valle drug CE). By having Mexican CEs operating on the U.S. side of the supply chain, the Colombians could keep a lower profile in the eyes of U.S. authorities. Although this new business model resulted in a loss in revenue for the Colombians, the enormous profit margins to be made from coca plant growing, processing, and export to Mexico still allowed for sizable revenue.

In addition to Colombian CE leader extraditions, the U.S. Government cracked down on the transport of cocaine from Colombia to U.S. shores via the Caribbean, then the lowest cost supply route. But that crackdown diverted the flow to the next lowest cost route: via Mexico. “In 1991, 50 percent of the U.S.-bound cocaine came through Mexico; by 2004, 90 percent did. Mexico became the FedEx of the cocaine business.”³

The primary recipients of illicit U.S.-generated gross drug revenue are the Mexican CEs—hence, the criminal proceeds smuggling problem on the Southwest border. These proceeds are essential for Mexican CEs to sustain their operations, purchase additional drugs and supplies, and facilitate their operations in Mexico in other ways. Without these proceeds, CE operations would be forced to identify alternative methods to fund their operations, and their power would be reduced greatly.

In response to this increase in Mexican drug trade and its associated criminal activity, the United States and Mexico have pledged high-level support to combat the problems along the shared border and have announced their intentions to increase and intensify bilateral cooperation internally in Mexico.

¹ The term “cartel” is used commonly to describe Mexican Criminal Enterprises, and this practice is adopted herein. In actuality, a cartel is a combination of independent organizations that unite to limit competition or fix prices (e.g., Organization of the Petroleum Exporting Countries [OPEC]). Mexican cartels are ruthlessly fighting one another for control of drug supply routes, so technically the term is incorrect. The term “drug trafficking organization” also falls short in that it fails to capture other criminal activities that the organization sometimes pursues (e.g., human trafficking and prostitution). Instead, we use the more encompassing term “criminal enterprise” in this study.

² Colombians do retain a small amount of direct U.S. presence (e.g., in New York and Miami).

³ David Luhnnow, “Saving Mexico,” *The Wall Street Journal*, December 26, 2009.

3. SCOPE OF WORK, METHODOLOGY, AND LIMITATIONS

The United States and Mexican Governments contributed to this bi-national study. The objective of this study is to gain a more in-depth understanding of criminal proceeds from the United States into Mexico and on to third countries. The scope includes identifying geographic regions within Mexico that represent the greatest concentration or aggregation of illegal funds that are stored and then transported to enable the money laundering process.

4. GENERAL OVERVIEW OF THE BULK CASH SUPPLY CHAIN

The bulk cash supply chain is based on a pull system in which all movement orders come from the CE leadership in Mexico. This is relevant for several reasons. First, it indicates the importance of communication throughout the supply chain to regulate the bulk cash flow. Second, it indicates that the Mexican CEs have the greatest ability within the network to protect their interests, allowing them to shift risk to other organizations in the supply chain. Third, it provides a targeting opportunity to remove the pull signal from the supply chain and force the network to adapt the current model to meet the new threat. The result would involve the development of new relationships and a restructuring for the Mexican CE's ability to receive cash, all of which take time and cause disruption.

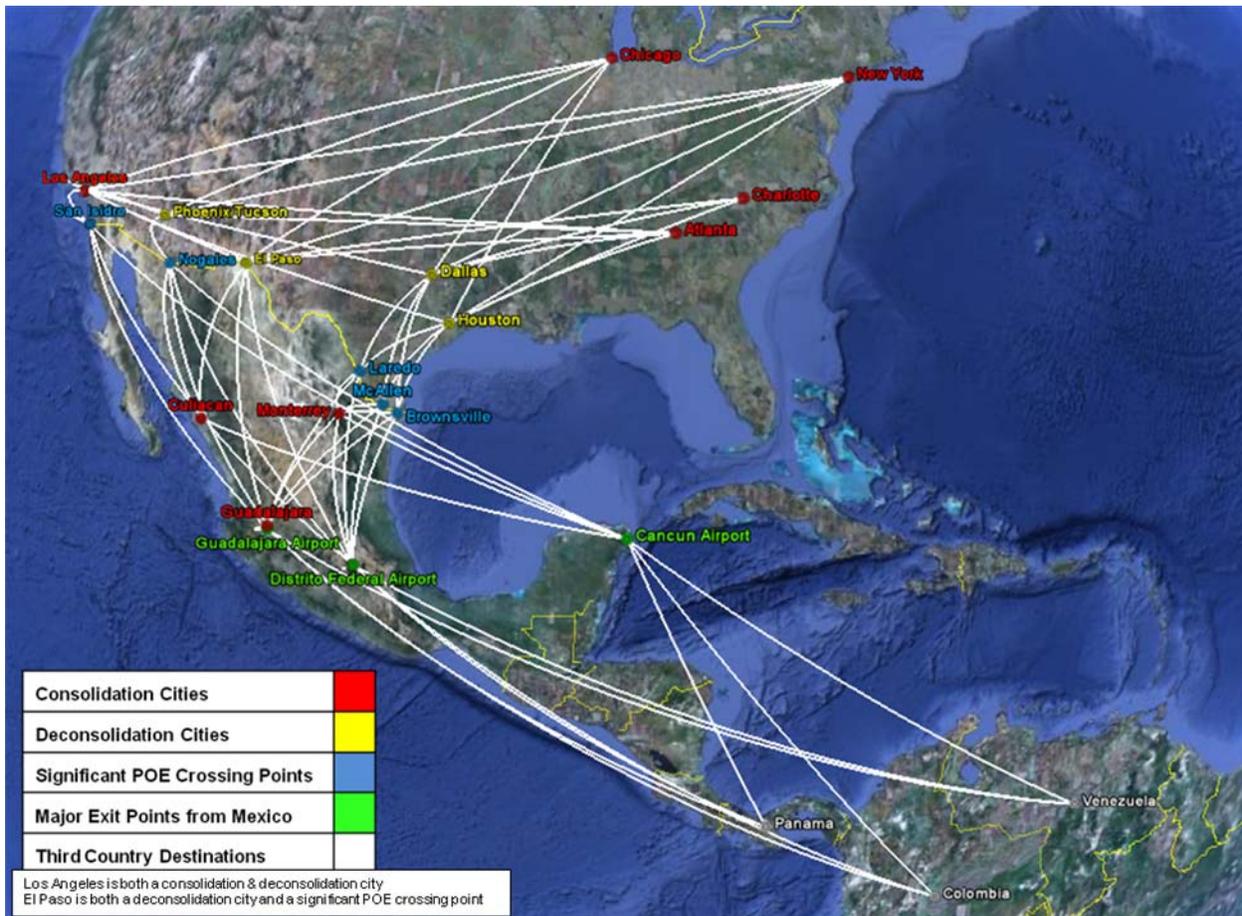
From the interviews, two distinct models to manage the movement of criminal proceeds from the United States into Mexico consistently appeared:

- **Insource Model:** Bulk cash transportation is managed internally by members of a Mexican CE.
- **Outsource Model:** Bulk cash transportation is managed by an independent contractor or money broker.

The insource model allows Mexican CEs to retain control of the bulk cash and its location. The outsource model is used when CEs wish to diversify their bulk cash flow or when there is limited access to resources (i.e., network of Transportation Operators or couriers) available for the movement of the cash.

Based on information derived from the study, it was determined that Seattle—specifically, Yakima, Washington, and Denver, Colorado—do have a presence from a narcotics and cash consolidation perspective, but not as significant for Mexican CEs as the ones indicated in the figure depicting hub cities and routes.

Figure 4-1. Hub Cities and Routes



Criminal Proceeds Transported in Non-Bulk Cash Form

There are methods other than bulk cash that can be used to transport criminal proceeds from the U.S. to Mexico; the cash can of course be converted to another form while still in the United States. However, our findings indicated that the great majority of Mexican CE criminal proceeds are transported across the U.S.-Mexican border in bulk cash form. Of that small portion that is converted to another form before crossing the border, various methods are used by Mexican CEs, most no different from those used by other criminal organizations in the United States.

CEs also hire individuals to move criminal proceeds through wire transfer companies like Western Union. For example, in February 2010, the Attorney Generals of Arizona, California, New Mexico, and Texas announced a \$94 million settlement agreement with Western Union. The company had been accused of allowing people who were working on behalf of Mexican CEs and human traffickers to wire funds from the United States to Mexico.

Stored Value Cards and Other Emerging Methods

Stored value cards⁴ (also known as prepaid cards) are a potentially powerful means for both transporting and laundering money. The potential use of stored value cards for illicit purposes

⁴ The terms “stored value card” (SVC) and “prepaid card” are commonly used in reference to any card that represents money previously stored on a card to facilitate a consumer’s purchases of goods, services, or further

has been noted by law enforcement officials. Without proper safeguards, these new payment methods can be abused for illicit purposes. What is important here is to deter the use of unlicensed and unregistered financial services providers from abusing the Stored Value Card System.

Bulk Cash Transportation

Bulk Cash can be transported across the border in numerous ways, especially when taking into consideration the 417 official land, sea and air POEs, and the numerous unofficial routes out of the country along the U.S.-Mexico border.⁵ Most bulk cash seizures occur at airports, which may be attributed to the additional time that CBP officers have to inspect luggage and conduct one-on-one interview with passengers when compared with land POEs. However, when airport seizures are analyzed by destination, it becomes evident that most of the cash is headed to countries other than Mexico. Data obtained during the study also reveals that although commercial trucks are believed to transport bulk cash less frequently across the border, when they do, they often carry much larger quantities of bulk cash.

Another method of moving money across the border is through the *ruta hormiga* (*ant route*), which uses daily border crossers to carry small amounts (usually \$5,000–\$10,000) of money from the U.S. into Mexico. According to *Proceso*, each ant, or *hormiga*, receives about \$500 for his/her services.⁶

Once the cash reaches Mexico, it is usually brought to a border town, but it also may be driven further south to one of Mexico's hub cities.

Once the courier brings the money to one of the above-mentioned locations, he hands it over to a CE member at a designated location, and the cash is taken to a stash house for reconsolidation. At this point, the responsibility for the bulk cash shifts from the courier to the Mexican cash cell leader.

Money Laundering in Mexico's Cash Economy

The first stage of money laundering is typically depositing illicit cash into a financial institution or business. However, in the case of Mexico, this would be simply carrying bulk cash across the border from the United States into Mexico. This is because the majority of this bulk cash is actually never laundered by the CE. Some data obtained indicates that no more than half of the

conversion to cash through an ATM machine. They may be Open Loop (usually branded cards, actual money is stored in a pooled account—not directly on the card, used at point of sale terminals, reloadable, used at ATMs, and can be anonymous) or Closed Loop (designated for use at a specific merchant, usually unable to be converted back to cash, and most having load limits (e.g., gift cards, mass transit cards, prepaid phone cards).

Of the two types, money launderers appear to prefer the Open Loop SVC because of their capability to be used at point of sale terminals, their wide acceptance by hotels and car rental agencies, and their portability. These cards enable its user to obtain cash from ATMs worldwide without going through a currency exchange, and they possess very high load limits (some as high as \$2 million). Their size and portability, as opposed to bulk cash, make them attractive to money launderers and because they are not defined as a financial instrument, they are not reportable under the CMIR statutes. Money launderers also are able to transfer value from one card to another via the Internet, completely outside the regulated financial systems. James Finely, *Stored Value Cards: General overview and their vulnerability to Money Laundering*, U.S. Secret Service. April 2009. Note that SVCs do have a positive side, fostering commerce and bringing a safe money storage method for people without access to banks.

⁵ U.S. Money Laundering Threat Assessment, December 2005

⁶ J. Jesús Esquivel, "El Paso-Juárez: el tráfico de la muerte," *Proceso*, February 07, 2010.

bulk cash reaches a financial institution at the behest of the CE; some information shows that a quarter is a more accurate number.

Money Laundering Regulation in Mexico

In the minority of instances in which bulk cash *is* laundered by CEs in Mexican financial institutions, whether the launderer faces regulation depends on the type institution involved.

Financial institutions in Mexico may or may not be regulated for money laundering purposes, depending on their status. Regulated financial institutions subject to AML laws include credit institutions (including commercial and development banks); limited scope financial institutions (such as non-bank banks), broker dealers, *casas de cambio* (currency exchange and money remittance businesses), *centros cambiarios* (currency exchange businesses), *afores* (pension management companies), general deposit warehouses, financial leasing companies, savings and loan cooperatives, *transmisores de dinero* (money remittance business), bonding companies, mutual fund distributors, and mutual fund managers.

Mexican CE Preference for Keeping Illicit Funds in Cash

- Mexico's traditional cash economy
- Those working for the CE prefer cash
- Colombian CEs can sometimes be paid in cash

Many banks are being diligent in enforcing AML regulations. For example, a number of large Mexican and Mexican-based foreign banks, including HSBC, Bancover BBV, and Banamex, have stopped accepting walk-in cash deposits in cities with high CE activity (e.g., Jalisco, Michoacán, Guerrero, and Sinaloa). Mexican bank compliance officers expressed concern that there is no Mexican equivalent to the Office of Foreign Asset Control (OFAC) list in which drug kingpins are designated. Mexican banks rely on the U.S. OFAC list.

Another example of trade-based money laundering found in Mexico involved the sale of second hand clothing. According to SSP, along the US-MX border, hundreds of establishments sell large quantities of second-hand clothing, which are introduced into Mexico via illegal means because the importation of second-hand clothing into the country is prohibited because of sanitary reasons.

5. ENABLING EQUIPMENT

Communication equipment is a key component of the entire supply chain. However, communication equipment has little variation from one step to the other throughout the process, regardless of whether bulk cash is being transported within the United States or Mexico. Communication keeps the entire process moving, allowing CE members and independent service providers (i.e., Money Brokers, Transport Coordinators, Transport Operators) to have consistent contact with each other.

6. FINDINGS

The Criminal Enterprises that together operate the series of process steps required to smuggle criminal proceeds out of the United States, in to Mexico, and on to third countries are adept at compartmentalizing knowledge and responsibility to limit the impact of law enforcement (LE)'s interdiction and to impede LE's investigative work. The end-to-end supply chain is designed with redundant nodes and simplified roles to limit the potential negative impact that any one individual or group of individuals can have on the success of the overall operation. As is the case with any enterprise, certain business models and key roles are integral to the profitable operation of the business, and CEs are no exception. The findings summarized in this report refer to the most common approaches that CEs employ and do not indicate that these are the only operational models used.