

**Drug cash eludes feds war**  
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Crackdown can't stop money-making cartels

Associated Press

TIJUANA, Mexico (AP) -- Every day, criminals shove proceeds from U.S. drug sales in their shoes, tape it to their torsos, stash it under dashboards -- or just wire it electronically to Mexico. It all adds up to \$25 billion a year.

A highly touted U.S. Treasury Department program aimed at starving Mexican drug cartels of that cash is currently blocking just \$3 million, an Associated Press investigation has found. That's in addition to \$58 million seized under a new initiative at the U.S.-Mexico border. The figures suggest that \$99.75 of every \$100 the cartels ship south is getting through -- money that is fueling a brutal war that has killed 14,000 people in three years.

Bundles of \$100 bills that add up to billions are sneaked in each year and then laundered into ostensibly legitimate funds at car dealerships, banks, pharmacies, restaurants and resorts. That money pays Mexican farmers to grow more marijuana and Colombian smugglers to sneak in more cocaine. It bribes Mexican soldiers and U.S. border patrol agents, and pays assassins and mercenaries to take out rival smugglers or would-be prosecutors.

**"This is the brilliance of the drug cartels. They pay ordinary people to get cash across the border for them, and then easily launder it into working capital to build and expand their violent and illicit operations," said Louise Shelley, of the Terrorism, Transnational Crime and Corruption Center at George Mason University.**

Unlike drugs and weapons, money is everywhere: We stuff bills in our wallets, give it to our kids and legally carry it through airports, into banks and across borders every day. U.S. law enforcement agents have recently tried to get tough on controlling the money, searching southbound cars at the border and freezing bank accounts of cartel bosses.

"We recognize that focusing on drugs and weapons, without stopping the money, is not going to stop the cartels," Assistant U.S. Treasury Secretary David Cohen told the AP.

The Foreign Narcotics Kingpin Designation Act, enacted 10 years ago, allows the president to designate individuals and corporations as drug traffickers, freezing their bank accounts and penalizing people for doing business with them. Dozens of cartel-related businesses and individuals -- including billionaire cartel boss Joaquin "El Chapo" Guzman -- have been named.

Mexican drug cartel chief Arturo Beltran Leyva, killed in the shootout Wednesday in Cuernavaca, just south of Mexico City, had been designated a narcotics kingpin by President Bush in May 2008.

The act lets the U.S. "strike the kingpins' international networks of front companies, facilitators

and straw men," Associate Treasury Director J. Robert McBrien recently told Mexican bankers.

But results, in terms of blocking assets, have been minimal.

After the AP filed a Freedom of Information Act request and made repeated queries for six weeks, a U.S. Treasury official, on the condition that her name not be used, gave the AP records showing \$16 million had been blocked -- including \$13 million that was seized -- from Mexican drug cartels over the past decade. Of that, \$3 million is currently being blocked.

The Treasury official played down the importance of the low returns, saying the act is designed mostly as a deterrent to keep drug organizations out of the U.S. financial system.

That's ridiculous, said Raymond Baker, director of the Washington-based nonprofit Global Financial Integrity, which works to curtail the cross-border flow of illegal money.

"They seized \$16 million in 10 years? That's absolutely nothing. That doesn't amount to a deterrent. That is an unsuccessful effort," he said. "We haven't begun to curtail the flow of illicit money generated by the cartels, and as a consequence of that we have not begun to curtail the drug trade."

And while the law also allows criminal penalties of up to \$10 million and civil penalties of up to \$1 million for doing business with the cartels, the records show just three fines related to Mexican drug cartels.

In 2005, Casa de Cambio Delgado Inc. of Jackson Heights, N.Y., was fined \$40,160.46. In 2006, a financial services firm was fined \$12,260.86. And in 2007, an unnamed violator was fined \$422.43.

Though estimates vary, many federal law enforcement agencies and analysts believe that \$25 billion in drug proceeds are smuggled out of the U.S. each year.

This compares to just \$61 million seized over the past year -- the \$3 million blocked in banks through the Narcotics Kingpin Designation Act and another \$58 million seized by border inspectors. That means authorities are halting just 25 cents of every \$100 in cartel profits.

With eight major drug cartels operating in Mexico, their methods for moving cash south are surprisingly similar, according to AP interviews with law enforcement agents and a review of court records on both sides of the border.

U.S. dealers are given drugs on credit and, under threat of kidnapping, attacks on their family or even death, they sell their inventory and pay the smugglers back within a week or two. The smugglers then pay someone to drive the cash to a "stash house" near the border, typically in Phoenix, San Diego, El Paso or Houston.

There, the cash is broken into increments of \$50,000 to \$300,000, lowering the risk of losing an entire load in one bust, and farmed out to trusted couriers.

They use the same methods people use smuggling drugs north: Money is hidden in the floorboards of buses and inside vehicle panels, tucked behind vehicle firewalls and inside spare tires, or stashed in custom-made compartments. Couriers wear loose-fitting clothes and tape stacks of \$100 bills to their bodies.

If caught by Customs and Border Protection agents, the couriers often can forfeit the money and simply drive on; Mexican officials don't normally arrest people for failing to report money coming in. For the cartels, that risk is part of the cost of doing business.

"Cartels expect that we are going to take some of that money off," said Douglas Coleman, assistant special agent in charge of the Drug Enforcement Administration in Phoenix.

In 1969, officials stopped minting \$500, \$1,000, \$5,000 and \$10,000 bills, making smuggling harder. That leaves the \$100 note as the highest denomination; A packet of 100 of those bills is less than 1/2 inch (1 centimeter) thick and contains \$10,000. One billion dollars fits squarely atop a standard shipping pallet.

The other way to get money south is to wire it.

Since 1972, the United States has implemented a series of restrictions, including a requirement that financial institutions report deposits of \$10,000 or more.

Still, authorities believe some drug smugglers use U.S. banks to move their money. In a typical scheme known as "smurfing," drug smugglers break large cash loads into less conspicuous increments, deposit them into numerous bank accounts in the U.S. and withdraw from those accounts at Mexican banks.

This approach, like other money laundering methods, has drawbacks. Deposits can't be over \$10,000, smugglers have to involve lots of people, or "smurfs," and the transactions create paper trails that can draw attention.

In another scheme, smugglers give legitimate bank account holders a small cut to use their accounts to deposit in the United States and withdraw in Mexico. Smugglers also are starting to ship cash through the postal service and shipping companies, allowing them to track it from start to finish.

Once the money gets to Mexico, the cartels put it to work. About 10 percent of Mexico's economy -- the world's 13th largest -- is based on cartel operations, analysts say.

As a result, lawmakers have refused to pass anti-laundering laws such as reporting requirements when people pay cash for mansions and luxury cars or regulations for salaries paid in cash.

"In Mexico there are still some very easy ways to launder money, and there is great reluctance among lawmakers to change that," said Ramon Garcia Gibson, an expert on financial controls.

"It's everywhere: Businesses that aren't doing any business except to receive cartel cash and put it in the bank."