Department of Justice

"MONEY LAUNDERING"

REMARKS

BY

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Let me present you with a cash problem. The annual gross income from drug sales in this country is estimated at over $100 billion. On the street, a crack sale is done for five or ten dollars, so that the largest denomination of currency in street circulation is usually a twenty-dollar bill. Those twenties are crumpled, so covered with a film of grime that they sometimes jam the drug-dealer's counting machines. They are usually bundled in such ways that, if seized, they can be put directly into evidence at trials as displaying all the characteristics of a drug deal. Enough of these bundles, collected from all the street dealers, ultimately total the over $100 billion I've mentioned. Together, they would weigh 26 million pounds.

Here is the problem: how do you push 26 million pounds of these twenties through a bank window?

An even tougher problem: how do you shove over $100 billion in twenties through a bank window <u>without attracting attention</u>? That, in a nutshell, is what I would describe as the drug dealers' greatest dilemma. The laundering of these billions is far more crucial to their operations -- and much more difficult, and high-risk -- than the actual trafficking in drugs.

Consider the plight of Stephen Kalish, convicted drug-dealer and money launderer. In 1983, Kalish found himself overwhelmed by his cash profits, and expecting $300 million more still in the pipe line. His money-counters -- mostly high school buddies -- were being made sick by the fumes from as much as $35 million in rooms full of unlaundered money in Tampa, Florida. Kalish was flying uncounted bundles to the Cayman Island banks, willing to have them weigh, deposit, and credit the money by the pound. But one Cayman bank had already refused $12 million in twenties. That's when he turned, according to his Senate testimony, to General Manuel Noriega in Panama to run his cash through the notorious Bank of Credit and Commerce International -- BCCI. Kalish has since been convicted of a one-million pound marijuana deal, and BCCI has paid, in another case, what Senator Howard Metzenbaum this week recognized as a record fine of $15 million for money-laundering.

Those are the dimensions of the cash nexus for international drug-dealing. Ultimately, cash is more vital to the trade than cocaine. If the DEA seizes cocaine with a street value of $19 million, it does not cost the Medellin cartel $19 million to replace that cocaine. Far less, somewhere between $2 and $4 million at present Colombian prices. But when $19 million in cash is confiscated from a New York drug warehouse, as was done late last year, there is no discount. That loss is $19 million. Nineteen million dollars that does not make its underground way into the worldwide economy to further capitalize the international drug trade, which must have these ill-gotten funds to stay malevolently solvent.

The drug dealers at that New York warehouse were probably planning to smuggle the money out of the country. Perhaps -- they've tried it in the past -- in Kelloggs Cornflake boxes. But a box of cornflakes, stuffed with greenbacks, weighs 18 pounds -- a discrepancy that does not escape notice at U.S. Customs. And even if the money had gone out as cornflakes, those nineteen millions would still have to reappear as a legal deposit somewhere in the worldwide financial network. And then much of that money would have to return back into the United States as operating capital, or for investment.

That is why money laundering has become so essential to the international drug trade. And that is why money laundering has now been declared an international menace. In late 1988, I went to Vienna to sign the United Nations Anti-Drug Convention on behalf of the United States. That treaty has now passed our Senate, and over 100 signatory nations are committed to prosecute international money launderers under present or new and mutually compatible national laws. And they are also pledged to assist each other in enforcing these laws against money laundering.

In this country, that task falls to the Justice Department. In the past, we have concentrated on sophisticated schemers, who used various banks -- like coin-operated machines in a laundromat -- to launder money most often legally owed to the Internal Revenue Service. But these are petty little rinse cycles of greed, compared the great wash of the 1980s and its whitened criminal drug fortunes. And in these 1990s, those twenties, still grimy from the streets, are increasingly being cleansed by computer bookkeeping, all but vanishing in a millisecond by electronic transfer within the licit, modern, world economy.

But Chuck Saphos, from our money-laundering unit at the Justice Department, reminds us that the most vulnerable point for any drug operation is still at the doorway to the bank. At that doorway, we have two strong legal weapons -- the Bank Secrecy Act of 1972, and the Money Laundering Control Act of 1986, as amended in 1988, which legally require reports of deposits or overseas transfers exceeding $10,000.

Our efforts have been immeasurably helped by the banks' stricter attention to their obligations to report all such financial transactions over $10,000 to Treasury. We are grateful for their diligence, which has aided us in catching these criminals. But in candor, I must say that this diligence started coincident with a number of prosecutions during the mid-80s of banks which had failed to make proper reports, some of these banks served by bank officers in league with the money launderers. We count on those being the misdemeanors and oversights of the past. Certainly the statistics indicate this. In 1983, reports numbered around 740,000. But last year, over 5.6 million such reports were filed.

In equal candor, I must also admit that these millions of reports are now part of the problem, as well as the solution. Agents winnowed through these reports by hand to secure indictments in Operation Greenback in Miami, but by now that data is enough to overwhelm human analysis. And money launderers are taking advantage of this inundation, hiding the brief ripples of their illegal transactions in the flood of reported legal activity.

One recent countermove, developed at Treasury, has been to use artificial intelligence to catch the money launderers. For the past three years, U. S. Customs has been employing an expert, rule-based system to spot patterns in reporting data that might indicate money laundering. The process is called "knowledge engineering." The expertise of human analysts who know how to sift reporting data is codified as rules within a computer program that makes judgement calls in microseconds by mathematical weight. This system outputs likely targets. To date, 168 intelligence products have focused on over 700 individuals and businesses. Sixty per cent of these products have led to further investigation.

It is reassuring to have these probing mechanical wizards, honed sharp enough to pick up the hidden paper trail left by money launderers. They are overseen by FINCEN -- the Financial Crimes Enforcement Network. Yesterday I attended the official launching of FINCEN to kick off its availability to all Federal agencies involved in the war on drugs.

But as ingenious and helpful as FINCEN will be, I hasten to say that computer runs alone cannot flush out most of the money launderers. By and large, we must still depend upon the dogged work of human intelligence to uncover them -- that is, tips, spin-offs from other investigations, even lucky breaks in the case. The international drug cartels are like the House that Jack Built. This is coca that grew in Peru that was processed in Colombia to be the coke that crossed from Mexico to become the crack that was sold in Omaha for the dollars that sat in Los Angeles to be the funds to go into the bank in Panama to be returned to pay for the House that Crack Built.

To illustrate this intricacy, let me trace for you the windings of one such criminal enterprise that was uncovered by our continuing Operation Polar Cap.

The Medellin drug cartel called it "La Miña" -- the gold mine. Money launderers set up a bogus scrap gold business in New York, and filed fake gold certificates to cover shipments flown nightly from New York "jewelers" to "bullion dealers" in Los Angeles. But a guard checking an air shipment from United Parcel Service into an armored car happened to notice a tear in one box of gold. When he picked up the box, it wasn't really heavy enough. On a closer look through the tear, he saw not gold, but bundles of cash. Loomis Armored Transport Co. reported this to the FBI.

At the same time, a new account was opened at the Wells Fargo bank in downtown Los Angeles. Banker Jack Kilhefner was strictly monitoring deposits -- exactly as requested to do by the Treasury Department. When this new account hit $25 million inside three months, he reported the activity to the IRS.

What intrigued a joint task force -- of FBI, DEA, Customs, and IRS agents, and others -- was the paper match-up. The amounts for which the "boxes of gold" were insured with United Parcel -- and delivered by Loomis Armored Transport to 220 and 550 Hill Street, down in Los Angeles jewelry district -- often matched the deposits made that same day into the Wells Fargo account.

By night, ironically, the L.A. jewelry district -- deserted by end of the day's business -- turned into a crack market. One undercover DEA agent was chased out of the lobby of 220 by an off-duty LAPD policeman, wielding a nightstick -- thinking the agent was dealing drugs. But Special Agent Nellie Magdaloyo, posing as a cleaning woman, got into Building 550. Every night -- under a court search warrant -- she stole the trash from the ninth floor. The trash contained adding-machine tapes from the gold brokers. The tapes broke down the cash shipments by denominations of currency, and the totals neatly tallied with the UPS and Loomis shipping labels. La Miña was right there at 220 and 550 Hill Street.

On February 22, 1989, agents moved in to make 33 arrests in Los Angeles, New York, and Miami. La Miña, investigators found, had laundered a total of $1.2 billion, flashing the money in bytes from New York, Houston and Los Angeles to Panama, Uruguay, and the British Isles and back again. So far, a multi-national investigation has charged 127 defendants, and confiscated a ton of cocaine, 19,000 pounds of marijuana, and $105 million in cash, jewelry, and real estate.

To capture such a cache of corrupt profits, law enforcement needed not only help from our own banking community, but cooperation from the financial communities of other countries. Here, as you can well understand, matters turn highly sensitive. Generally, banks have every good reason to want to protect their customers' privacy. Most especially those whose bankers share our same capitalistic faith in Adam Smith's Invisible Hand. Why should the Invisible Hand ever have to sign its name in public? Give the Hand its own secret number, the Swiss would say.

But lately even the Swiss banks -- as well as the Luxembourg banks and many more -- have agreed to let us go after the deposits of drug dealers -- if we have a name or know the number of the account. Swiss bankers do not like bankrolling drug-dealers, and money-laundering has been now made a crime in Switzerland. And other countries will soon follow suit under the requirements of the U.N. Vienna Drug Convention.

Ripping out these illegal financial webs, pulling apart the money-laundering networks -- this is the most effective way to bring down the drug cartels. I have said that there is great poetic justice in using the fruits of forfeiture against the drug dealers themselves. It is truly satisfying to think that it is now possible for a drug-dealer to serve time in a forfeiture-financed prison, after being arrested by agents driving a forfeiture-provided automobile, while working in a forfeiture-funded sting operation.

In fact, let me close by telling you how we successfully concluded Operation C-Chase on the day of Robert Mazur's wedding in Tampa. Robert Mazur was handling almost $32 million in Medellin cartel funds, running half the money through the Miami branch of BCCI -- the bank that handled Noriega's money, you will recall. When Mazur mentioned that the funds were cocaine money, BCCI officials helped him hide these millions in Luxembourg. Mazur became such a valued BCCI client that when he invited people to his wedding, a dozen BCCI bank officers came flying into Tampa, several all the way from Europe. Only the limousines that met them at airport did not head for a bachelor party. The wedding guests were instead delivered to federal court for immediate arraignment, with Robert Mazur ready to testify against them, as an undercover U.S. Customs agent. And simultaneously authorities in Great Britain and France were closing and searching their bank branches and arresting some of their colleagues.

It was a major sting, done with the cartel's own funds that have since been recouped many times over. The objective, always, is to break the drug dealers by impoverishing them. To dismember their financial system, so that they cannot keep capitalizing their vicious enterprises, which are truly the darkest, most satanic mills of our times.

The warning motto we want to brand upon the minds of the drug profiteers is "You make it, we'll take it." And if we take away enough of their ugly profits, we can truly help turn the corner in this fight against the international traffickers and their financial minions. And help conquer what President Bush has rightfully described as "the scourge of drugs."

Thank you.