

**NARCO-TERRORISM: INTERNATIONAL DRUG TRAF-
FICKING AND TERRORISM—A DANGEROUS MIX**

HEARING

BEFORE THE

COMMITTEE ON THE JUDICIARY

UNITED STATES SENATE

ONE HUNDRED EIGHTH CONGRESS

FIRST SESSION

—————
MAY 20, 2003
—————

Serial No. J-108-12

Printed for the use of the Committee on the Judiciary



U.S. GOVERNMENT PRINTING OFFICE

90-052 DTP

WASHINGTON : 2003

For sale by the Superintendent of Documents, U.S. Government Printing Office
Internet: bookstore.gpo.gov Phone: toll free (866) 512-1800; DC area (202) 512-1800
Fax: (202) 512-2250 Mail: Stop SSOP, Washington, DC 20402-0001

COMMITTEE ON THE JUDICIARY

ORRIN G. HATCH, Utah, *Chairman*

CHARLES E. GRASSLEY, Iowa	PATRICK J. LEAHY, Vermont
ARLEN SPECTER, Pennsylvania	EDWARD M. KENNEDY, Massachusetts
JON KYL, Arizona	JOSEPH R. BIDEN, JR., Delaware
MIKE DEWINE, Ohio	HERBERT KOHL, Wisconsin
JEFF SESSIONS, Alabama	DIANNE FEINSTEIN, California
LINDSEY O. GRAHAM, South Carolina	RUSSELL D. FEINGOLD, Wisconsin
LARRY E. CRAIG, Idaho	CHARLES E. SCHUMER, New York
SAXBY CHAMBLISS, Georgia	RICHARD J. DURBIN, Illinois
JOHN CORNYN, Texas	JOHN EDWARDS, North Carolina

BRUCE ARTIM, *Chief Counsel and Staff Director*

BRUCE A. COHEN, *Democratic Chief Counsel and Staff Director*

CONTENTS

STATEMENTS OF COMMITTEE MEMBERS

	Page
Biden, Hon. Joseph R., Jr., a U.S. Senator from the State of Delaware	3
Hatch, Hon. Orrin G. a U.S. Senator from the State of Utah	1
prepared statement	72
Kyl, Hon. Jon, a U.S. Senator from the State of Arizona	6
Leahy, Hon. Patrick J., a U.S. Senator from the State of Vermont, prepared statement	85

WITNESSES

Casteel, Steven W., Assistant Administrator for Intelligence, Drug Enforce- ment Administration, Washington, D.C.	7
Clark, John P., Interim Director, Office of Investigations, Bureau of Immigra- tion and Customs Enforcement, Department of Homeland Security, Wash- ington, D.C.	14
Johnson, Larry C., Managing Director, Berg Associates, Washington, D.C.	32
Lee, Rensselaer W., President, Global Advisory Services, McLean, Virginia	30
McCarthy, Deborah, Deputy Assistant Secretary, International Narcotics and Law Enforcement Affairs, Department of State, Washington, D.C.	12
McCraw, Steven C., Assistant Director, Office of Intelligence, Federal Bureau of Investigation, Washington, D.C.	10
Perl, Raphael, Specialist in International Affairs, Congressional Research Service, Library of Congress, Washington, D.C.	28

QUESTION AND ANSWER

Response of Steven C. McCraw to a question submitted by Senators Biden and Hatch	45
---	----

SUBMISSIONS FOR THE RECORD

Casteel, Steven W., Assistant Administrator for Intelligence, Drug Enforce- ment Administration, Washington, D.C., prepared statement	47
Clark, John P., Interim Director, Office of Investigations, Bureau of Immigra- tion and Customs Enforcement, Department of Homeland Security, Wash- ington, D.C., prepared statement	64
Johnson, Larry C., Managing Director, Berg Associates, Washington, D.C., prepared statement	75
Lee, Rensselaer W., President, Global Advisory Services, McLean, Virginia, prepared statement	87
McCarthy, Deborah, Deputy Assistant Secretary, International Narcotics and Law Enforcement Affairs, Department of State, Washington, D.C., prepared statement	92
McCraw, Steven C., Assistant Director, Office of Intelligence, Federal Bureau of Investigation, Washington, D.C., prepared statement	103
Perl, Raphael, Specialist in International Affairs, Congressional Research Service, Library of Congress, Washington, D.C., prepared statement	107

NARCO-TERRORISM: INTERNATIONAL DRUG TRAFFICKING AND TERRORISM—A DAN- GEROUS MIX

TUESDAY, MAY 20, 2003

UNITED STATES SENATE,
COMMITTEE ON THE JUDICIARY,
Washington, DC.

The Committee met, pursuant to notice, at 10:02 a.m., in room SD-226, Dirksen Senate Office Building, Hon. Orrin G. Hatch, Chairman of the Committee, presiding.

Present: Senators Hatch, Kyl, Sessions, Cornyn, Biden, and Feinstein.

OPENING STATEMENT OF HON. ORRIN G. HATCH, A U.S. SENATOR FROM THE STATE OF UTAH

Chairman HATCH. Good morning. I want to welcome everyone to this important hearing to examine the issue of narco-terrorism.

The problems of terrorism, drugs and international organized crime pose new and significant challenges to our country. As everyone knows, these problems occur across our borders and are less and less subject to control by nation states. Terrorists around the world and in every region appear to be increasing their involvement in the trafficking of illegal drugs, primarily as a source of financing for their terrorist operations.

Narco-terrorists participate directly or indirectly in the cultivation, manufacture, transportation and/or distribution of controlled substances. Several terrorist groups provide security for drug traffickers transporting their products through territories under the control of terrorist organizations or their supporters. No matter what form it takes or the level of involvement in drug trafficking, several significant terrorist groups are reported to be relying on drug money as one of several significant funding sources.

In the mid-1990's, I became concerned about the nexus forming between international organized crime, political movements and terrorism arising out of certain ungovernable areas of the world. Senator Biden and others, of course, have equally participated in this concern.

Terrorist organizations developed relationships with illicit narcotics traffickers. In areas such as Afghanistan, a fundamentalist regime became wholly dependant on opium production at the time it became the host of Osama bin Laden and Al-Qaeda. In other parts of the world, such as Colombia, the connection was made

through international organized crime, activities which are inconsistent with the ideological basis for terrorist activities.

Today, United States and coalition forces have successfully removed the Taliban from power, but we have not succeeded in stabilizing Afghanistan. Our policy is to support President Karzai, but his Tajik-dominated government has alienated the majority of the Pashtun population, who live in most of the opium-producing areas of Afghanistan. This alienation of the Pashtuns has led to instability in Afghanistan that has resulted in fundamentalist and Al-Qaeda resistance to U.S. forces and an increase in opium production.

The Bush administration recognizes that the situation in Afghanistan remains unresolved, and I urge the administration to maintain its commitment to the future of Afghanistan, if we are to root out Al-Qaeda and begin to reduce the opium production there.

The reach of narco-terrorism extends across the globe to other areas in Asia, the Middle East and Latin America. In South America, the narco-terrorist threat is well-documented, including terrorist organizations such as the Revolutionary Armed Forces of Colombia, or FARC; the National Liberation Army, or ELN; and the United Self-Defense Groups of Colombia, or AUC.

Terrorist groups in Colombia rely on cocaine trafficking, transportation and storage of cocaine and marijuana, as well as taxing traffickers and cocaine laboratories in order to support their civil war, terrorist attacks and, of course, the hostage-taking of Americans, among others.

The connection between Middle Eastern terrorist groups such as Hizballah and Hamas, and Latin American drug trafficking has been reported in the Tri-Border area of Argentina, Brazil and Paraguay, which has long been characterized as a regional hub for radical Islamic groups which engage in arms and drug trafficking, contraband smuggling, money laundering and movement of pirated goods.

I would note that in a recent arrest reported just last week, the cousin of extremist Assad Ahmad Barakat, head of Hizballah in the Tri-Border area, was arrested in Paraguay with 2.3 kilograms of cocaine powder which he intended to sell in Syria to benefit the Hizballah terrorist organization. The cousin was reportedly a mule hired by Barakat as part of the narco-terrorist financing operations needed to support Barakat and Hizballah.

I want to commend the administration for its continuing efforts to fight narco-terrorism worldwide. Using tools provided in the PATRIOT Act, particularly those involving money laundering and intelligence-gathering, the Bush administration has demonstrated its commitment to fighting not only terrorists, but individuals and organizations which provide critical financing to terrorist groups.

We should make no mistake about it: the impact of global narco-terrorism on our own communities is significant. In the District of Columbia, in November 2002, 3 separate indictments were announced charging 11 members of the FARC with the murder of 3 individuals, hostage-taking and drug trafficking involving the distribution of cocaine bound for the United States.

In Houston, Texas, in November 2002, four members of the United Self-Defense Groups of Colombia, the AUC, were caught

trying to exchange \$25 million of cash and cocaine for weapons, such as shoulder-fired anti-aircraft missiles, 53 million rounds of ammunition, 9,000 rifles, rocket-propelled grenade launchers, along with almost 300,000 grenades to be used by AUC operatives.

In San Diego, California, in November 2002, two Pakistani nationals and one United States citizen were charged with attempting to exchange 600 kilograms of heroin and 5 metric tons of hashish for cash and four anti-aircraft missiles to supply to the Taliban and Al-Qaeda associates.

Recently, in April 2003, the FBI and DEA disrupted a major Afghanistan-Pakistani heroin smuggling operation with the arrest of 16 individuals, in which heroin was being shipped to the United States, profits from the sale of heroin were laundered through Afghan and Pakistani-owned businesses in the United States, and then sent back to finance terrorists.

If we really want to win the war against terrorism, we need to continue and expand our commitment to cutting off all sources of terrorism financing, including drug trafficking. By doing so, we will not only cut off an important source of funding for terrorists, but we will reduce the amount of illegal drugs that poison our communities.

So I look forward to hearing from the experts we have called before the Committee today, today's witnesses.

Now, I want to turn it over to Senator Biden, who is serving as the ranking minority member, for his opening remarks. In particular, he and Senator Kyl are great assets to this Committee, especially in the area of terrorism, and narco-terrorism at that.

So, Senator Biden, we will turn to you.

**STATEMENT OF HON. JOSEPH R. BIDEN, JR., A U.S. SENATOR
FROM THE STATE OF DELAWARE**

Senator BIDEN. Thank you, Mr. Chairman, and thank you for the nice compliment. The truth is when Steve Casteel and I started in this business, there used to be an ad, "This ain't your father's Oldsmobile." This is not your father's Oldsmobile anymore. I have been doing this for 30 years. I have been doing it as long as anyone in here, including the panel, and I have spent a considerable portion of my life trying to figure out how to deal with the drug problem and international drug trafficking.

This has morphed into a very different arena now and we have not yet adjusted, in my view. That is not a criticism; it is an observation. We have not fully adjusted to the changes that have taken place, nor in a sense is it reasonable to expect we would have fully adjusted by now.

Without going through, which I was going to do—I will ask unanimous consent that my entire statement be placed in the record, Mr. Chairman, and I will just speak to parts of it.

Chairman HATCH. Without objection.

Senator BIDEN. Without cataloguing, as you did very well, the recent arrests, including 16 Afghans and Pakistani nationals arrested in New York on drug charges, their drug ring was linked to Al-Qaeda and the Taliban. We know what is going on.

Since September 11, we have been focused on counter-terrorism, and rightly so, but we have got to see and respond to the big pic-

ture here and it is going to take a while to get this right. I want to be realistic about homeland security and if we take our eye off the ball, we are going to find ourselves with a problem.

We have to make sure our security priorities don't undermine our existing law enforcement efforts, which they are doing right now unintentionally. They must go hand in hand. I have been worried for some time that the increased focus that we have on homeland security has lost sight of what is really happening on our streets, and in drug trafficking in particular.

If you look at the anti-drug initiatives that are part of the war on terrorism and understand that, I think we come up with a slightly different matrix than we now have. The administration's record here is somewhat mixed, in my view. It is doing a pretty good job on Colombia and it is doing a horrible job—and I want to make it clear, a horrible job—in Afghanistan.

At home here, it has repeatedly proposed slashing or eliminating law enforcement programs with track records that reduce crime. The FBI has been forced to shift hundreds of agents away from counter-narcotics work which they were involved in, forcing the DEA to do more without sufficient funding, in my view, to do their job.

Moreover, the administration has left the top anti-narcotics position at the State Department vacant since September. It has yet to even nominate a replacement. We have to be able to walk and chew gum at the same time here, and we can't separate fighting terrorism from fighting drug trafficking, given the considerable and increasing linkage between the two.

Let me just mention two areas that I have already mentioned, but expand slightly.

Afghanistan: the connection between the warlords, drugs and terror is as clear as a bell. A lot of us here have talked about it. I have written reports about it. We have gone to the area and visited it. We even passed a \$1 billion aid package here for Karzai last year for security, not one penny of which has been spent. There has been no extension of the security force beyond Kabul.

The National Security Adviser has said to me personally and indicated to me generally that we have stability in Afghanistan and, quote, "the warlords are in charge." When I indicated that, in Harat, you had a guy named Ismael Kahn, a warlord, running the show, she said, yes, there is some stability. There is stability all right. Everybody is back in business.

When I was there a year ago January and spent time with Karzai, the opium production was way down. We all said, sitting here, we are not going to let this erupt again, we are not going to let this happen again, this is not going to become the single largest opium producer in the world. In a short 2 years, it is once again the single largest opium producer in the world. The fact of the matter is you can't stop opium production when the warlords control the region and when, in fact, we don't expand security beyond Kabul.

Last year, Afghanistan produced 3,400 tons of opium. That is more than 18 times the amount produced during the last year the Taliban was in charge. The value of the harvest to growers and traffickers was \$2.5 billion, more than double the entire amount of

foreign aid given to Afghanistan by all nations in the world in the year 2002.

It was the power vacuum created by warlords and drug traffickers that enabled the Taliban and Al-Qaeda to turn Afghanistan into an international swamp, as the President called it, the first time, and now we are back in the same situation again.

In December, President Bush signed the Afghan Freedom Support Act, which authorizes \$1 billion to expand international peacekeeping outside of Kabul to the rest of the country. To date, the President has not asked for one dime of that money to be spent. I sincerely urge the President and plead with him to seek to expand that force and to spend some of that money.

In Colombia, the record is a little bit better. The effort has been consistent. The problem is, in a sense, even more intractable than it is in Afghanistan. All of us here have been to Colombia a number of times. We have witnessed the operations, we have met with the Colombians. We understand the FARC, ELN and AUC, and how they have gone from being facilitators to wholly-owned subsidiaries now. They are doing the job, and doing it very well.

According to recent estimates, 90 percent of the cocaine consumed in the United States and 75 percent of the heroin used on the East Coast comes from Colombia. And, boy, it is pure, as we all know.

I remember when you and I got here, Mr. Casteel, we were worried about brown heroin from Mexico. God give me back brown heroin, 6-percent purity. I can go on Aramingo Avenue in Philadelphia and pick it up at 90-percent purity. You can now smoke it. You can now get young girls who are 13 years old, who would no more put a needle in their arm than fly—you can get them to smoke cocaine, just like the crack epidemic started.

The United States has remained engaged in Colombia and it is a very difficult problem, and I credit the administration for its efforts there. But the point I want to make is this: you all are in an almost—how can I say it—almost impossible situation.

As we put together these pieces for homeland security and dealing with international terrorism, we have had to move a lot of pieces and there is bound to be some dislocation in the movement. But what concerns me is, with a 40-percent reduction in funding for law enforcement locally in next year's proposed budget, with moving 567 strike force and narcotics-related FBI agents out of that area, without significantly increasing for DEA a commensurate number of people, without putting security in Afghanistan, which is a very different way and place and ability to eradicate crops there than it is in the Amazon, we are missing real opportunities and creating problems that were pointed out by the Chairman.

I will end by suggesting that you will be able to have all the terror, as the sophisticated terror operations, from Al-Qaeda on, fully funded with money left over for vacations by the profit from narcotics and international narcotics trade now being controlled by terrorist organizations.

So to suggest that we can deal with terror and not deal equally with as much emphasis and effort and resources with international

drug trafficking, I think is a glaring, glaring mistake. Afghanistan is, to me, the most significant case in point.

And I might add I am fully aware of what you all tell me that 80 percent of the opium produced—by the way, they are moving the labs back from Pakistan now into Afghanistan because it is a secure area. There is nobody to crack down, nobody to crack down in most of these areas. At least in Pakistan, they are worried a little bit about the government, a little bit about the government. So you know things are really doing well when they are moving the labs back from Pakistan across the border into Afghanistan.

Eighty percent of it goes to Europe, I understand. Drugs are like oil; they are fungible, and that means it increases our problem commensurately with the fact that all the heroin supply for Europe is coming out of Afghanistan now.

I hope you all are willing to accept more money. I hope you all are going to be honest enough to tell us what your shortfall is. I hope you are going to be willing to tell us and not give us the marlarkey that you can do more with less, because you know you can't and you haven't. And so I hope we have some candor here because this is a big, big deal.

I yield the floor.

Chairman HATCH. Well, thank you, Senator.
We will turn to Senator Kyl.

**STATEMENT OF HON. JON KYL, A U.S. SENATOR FROM THE
STATE OF ARIZONA**

Senator KYL. Thank you, Mr. Chairman. This hearing builds on one that Senator Feinstein held in the Terrorism Subcommittee last year. That hearing focused on illegal drugs and their link to terrorism in two parts of the world, Afghanistan and Colombia. As that hearing showed and as this hearing will confirm, there is a growing and significant link between international drug traffickers and terrorism.

Several terrorist groups benefit directly or indirectly from drug trafficking activities. The form of such relationships varies among the groups and areas in the world. Some terrorist groups are directly involved in the trafficking of illegal drugs, some are indirectly involved as a financing mechanism by providing security for or taxing of traffickers who transport drugs through areas controlled by the terrorist groups. And some terrorist groups support cultivation of illegal drugs, such as coca or opium, as a financing mechanism.

There are many examples. Indeed, as Chairman Hatch has mentioned, the narco-terrorism connection was underscored by a November 2002 arrest in San Diego of two Pakistanis and one U.S. citizen for attempting to exchange 600 kilograms of heroin and 5 metric tons of hashish for cash and 4 Stinger anti-aircraft missiles to supply Al-Qaeda associates.

We have a very distinguished panel of witnesses here today, Mr. Chairman, and I look forward to their testimony about the connection between terrorists and international drug traffickers.

Chairman HATCH. Well, thank you, Senator.

Senator Cornyn, do you care to make any remarks?

Senator CORNYN. Thank you, Mr. Chairman. I will pass.

Chairman HATCH. Thank you.

Senator Sessions, do you care to make any comments?

Senator SESSIONS. No, thank you, Mr. Chairman.

Chairman HATCH. Well, we will begin with our panel. We are delighted to have these tremendous leaders here with us today.

Mr. STEVE W. Casteel is the Assistant Administrator for Intelligence at the Drug Enforcement Administration here in Washington.

Mr. Steve McCraw, we welcome you here again, Assistant Director of the Office of Intelligence at the Federal Bureau of Investigation.

Ms. Deborah McCarthy is Deputy Assistant Secretary of State in the Bureau of International Narcotics and Law Enforcement Affairs at the Department of State. Mr. John P. Clark is the Interim Director of the Office of Investigations in the Bureau of Immigration and Customs Enforcement in the Department of Homeland Security.

So we are happy to have all of you here and we will begin with you, Mr. Casteel.

STATEMENT OF STEVEN W. CASTEEL, ASSISTANT ADMINISTRATOR FOR INTELLIGENCE, DRUG ENFORCEMENT ADMINISTRATION, WASHINGTON, D.C.

Mr. CASTEEL. Thank you, Mr. Chairman. Chairman Hatch, Senator Biden, Senator Kyl, Senator Sessions, good to see you again, and obviously last but not least, Senator Cornyn. It is a pleasure to be with you today to discuss a very important issue and to represent the Drug Enforcement Administration as the Assistant Administrator of Intelligence.

Prior to September 11, 2001, the law enforcement community typically addressed drug trafficking and terrorist activities as separate issues. In the wake of the terrorist attacks in New York City, Washington, D.C., and Pennsylvania, these two criminal activities are virtually intertwined. For DEA, investigating the link between drugs and terrorism has taken on a renewed importance.

Throughout history, a broad spectrum of the criminal element, from drug traffickers to arms dealers to terrorists, have used their respective power and profits in order to instill the fear and corruption required to shield them from the law.

Whether a group is committing terrorist acts, drug trafficking or laundering money, the one constant to remember is that they are all forms of organized crime. The links between various aspects of the criminal world are evident because those who use illicit activities to further or fund their lifestyle, cause or fortune often interact with others involved in related illicit activities.

For example, organizations that launder money for drug traffickers often utilize their existing infrastructure to launder money for arms traffickers, terrorists and other types of criminals. The link between drugs and terrorism is not a new phenomenon.

Globalization has dramatically changed the face of both legitimate and illegitimate enterprise. Criminals, by exploiting advances in technology, finance, communications and transportation in pursuit of their illegal endeavors, have become what we now call criminal entrepreneurs. Perhaps the most alarming aspect of this entre-

preneurial style of crime is the intricate manner in which drugs and terrorism may be intermingled.

The DEA does not specifically target terrorists or terrorist organizations. DEA's mission is and remains to investigate and prosecute drug traffickers and drug trafficking organizations. However, some of the individuals and/or organizations targeted by DEA may become involved in terrorist activities. In fact, 39 percent of the State Department's current list of designated foreign terrorist organizations have some degree of connection to drug activity.

If the Committee would look to the right there, you will see two charts outlining that fact. The first chart lists the 36 foreign terrorist organizations currently listed by our State Department. Those highlighted in red, those 14 organizations, we believe have some link and ties. Often, when we talk about narco-terrorism, we think of Latin America, too. And if you look at the second chart, you will see that the global spectrum covered by these organizations is worldwide.

One does not have to go to the Middle East, however, to find active terrorist groups. They exist right in our hemisphere a mere three hours' flight from Miami. The U.S. State Department has officially designated the ELN, the FARC and the AUC as foreign terrorist organizations. Based in Colombia, these groups were responsible for some 3,500 murders in 2002 alone.

As in years past, Colombia endured more kidnappings last year than any other country in the world, roughly around 3,000. Overall, the ELN, FARC and AUC all benefit and derive some organizational proceeds from the drug trade, as well as illegal activities such as kidnapping, extortion and robbery.

DEA reporting indicates that persons affiliated with the AUC, and to a lesser extent the FARC, are now working with Mexican and Central American trafficking organizations to facilitate cocaine transshipment throughout the region. Consistent with these reports, a Government of Mexico official recently stated that members of the AUC and FARC are carrying out drug trafficking activities in Mexico.

There have been numerous instances of drugs-for-weapons exchanges occurring in the region, particularly in Central America. Drugs are almost becoming the universal currency of organized crime.

As you see in a chart that has been placed up there now, this is all too often an occurrence in Central America. A plane will land, offload a large amount of cocaine. They will throw on a load of guns and back south it heads. Fortunately, this plane didn't make it off the ground.

The ELN, FARC and AUC are not the only terrorist groups in our hemisphere. As you heard before, the Tri-Border area of Paraguay, Argentina and Brazil is a Hizballah and the Islamic Resistance Movement, known as Hamas, action area. DEA intelligence indicates that they generate a significant income by controlling the sale of various types of contraband in these areas, including drugs, liquor, cigarettes, weapons and forged documents. Our intelligence suggests that large sums of these earnings from these illegal activities go in support of the operatives' respective organizations in Lebanon.

Although not in our hemisphere, but of great concern to our National interest, Afghanistan continues to be a major source-producing country, producing approximately 59 percent of the world's supply of opium in 2002. In January 2003, DEA officially reopened its Kabul office, which is staffed by two full-time special agents.

With a presence north and south of the Afghan border, through offices in Uzbekistan and Pakistan, the DEA continues to work closely with its counterparts to collect intelligence pertaining to clandestine laboratories, drug stockpiles, trafficking routes and major regional drug targets.

Afghanistan's neighbors in the Central Asian states may also be candidates for exploitation by these traffickers. Drug trafficking groups could potentially utilize their existing networks within the region to move to market precursor chemicals and other things to be used in the drug trade. Presently, the situation is fluid and constantly changing. Until the situation in Afghanistan stabilizes, the future of drug cultivation and production within that country or within that region itself remains uncertain.

Southeast Asia also faces similar obstacles in confronting the myriad and terrorist organizations who continue to challenge established governments. The United Wa Army, the largest heroin and methamphetamine trafficking group in the area, operates with virtual autonomy, a government within a government, primarily funded by drug activities. The overwhelming majority of both heroin and methamphetamine refineries currently are located in Burma and areas controlled by the Wa or indirectly in areas controlled by traffickers paying fees to the Wa.

The terrorist attacks carried out on our Nation on September 11, 2001, graphically illustrate the need to starve the financial base of every terrorist organization and deprive them of the drug revenue that is used to fund acts of terrorism. Tracking and intercepting the unlawful flow of drug money is an important tool in identifying and dismantling international drug trafficking organizations and their ties to terrorism.

Domestically, one major DEA effort that highlights the importance of targeting financial networks to the Middle East is Operation Mountain Express III. This investigation, which targeted pseudoephedrine suppliers from Mexican methamphetamine super labs, revealed that proceeds from the sale of Canadian pseudoephedrine are being funneled through the traditional hawala underground banking network to individuals in the Middle East.

The last chart you will see there somewhat illustrates that fact. What we have is major labs operating on our West Coast controlled by Mexican organized crime groups. The source or precursor chemical for that is pseudoephedrine which is produced in Canada, moves across our borders mainly to Chicago and Detroit, on then to Las Vegas and Phoenix, and then ultimately to the big labs.

From a law enforcement perspective, what I find interesting here is the way we were seizing these pseudoephedrine tablets. As you see the pictures moving across, when we first started having this problem, we were seizing all these little bottles of pseudoephedrine, very small bottles, case after case. Then we started seizing bigger bottles and bigger bottles, and now as you can see at the end, we

are seizing kegs of this product, which shows the need for it and the profitability to be addressed by it.

In recent years, U.S. law enforcement has moved toward a community policing model. You hear that all the time in the United States, community policing, community policing. Internationally, law enforcement has adopted what we call the transnational policing approach. The DEA is positioned to support this model because it maintains 79 offices in 58 countries. These offices support DEA domestic investigations through foreign liaison, training of host country officials, bilateral investigations and intelligence-sharing. Foreign operations enable DEA to share intelligence and coordinate and develop a worldwide drug strategy, in cooperation with our host countries.

In conclusion, Mr. Chairman, the events of September 11 have brought a new focus on an old problem, narco-terrorism. These events have forever changed the world and have demonstrated that even the most powerful Nation is vulnerable to acts of terrorism. In attempting to combat this threat, the link between drugs and terrorism has come to the fore. Whether it is a state, such as the formerly Taliban-controlled Afghanistan, or a narco-terrorist organization such as the FARC, the nexus between drugs and terrorism is perilously evident. DEA, though a single-mission agency, is committed to our National security through a myriad of cooperative international and domestic enforcement initiatives and programs.

Once again, I thank the Committee for the opportunity to share my insights relative to DEA's role in this critically important and I will also be happy to respond to any questions the Committee may have.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Casteel appears as a submission for the record.]

Senator KYL. [Presiding]. Thank you very much, Mr. Casteel.

Let me just note that Senator Leahy's and Senator Grassley's statements will be put in the record, without objection, and we will leave the record open for one week.

Mr. McCraw.

**STATEMENT OF STEVEN C. MCCRAW, ASSISTANT DIRECTOR,
OFFICE OF INTELLIGENCE, FEDERAL BUREAU OF INVESTIGATION,
WASHINGTON, D.C.**

Mr. MCCRAW. Thank you, Senator Kyl. With your permission, I would like to respectfully request that my written testimony be submitted to the record.

Senator KYL. Without objection, so ordered.

Mr. MCCRAW. Also, with your permission, I would like to depart a little bit from my written testimony and talk to you a little bit about this serious problem.

Before I began, I want to take this opportunity on behalf of every FBI man and woman to publicly thank the members of this Committee, even though Chairman Hatch is not here at this time, for your tremendous support, and Senator Biden, Senator Sessions and Senator Cornyn, to the FBI. We are now able to modernize our information technology system. We are having agents increased in

terms of combatting terrorism analysts, and also some support professionals, and we very much appreciate it.

Secondly, I would like to divert just a little bit of time to talk about what is the most significant threat as we see it right now. Clearly, it is Al-Qaeda. Also, there are other Islamic extremist groups. The FBI, along with our State, local and Federal partners, have identified hundreds of Islamic extremists and Sunni extremists tied to Al-Qaeda, tied to terrorists.

The concentrations continue to be Eastern Seaboard, Western Seaboard and Southwest, in your part of the country, Senator Cornyn. And it is these threats that certainly keep all of us up late at night and up early in the morning. Clearly, the sleeper cells constitute our greatest threat. Those are the ones that sneak into this country. They capitalize on our porous borders, our free and open democracy that we cherish so much as Americans. Once in, they avoid police scrutiny. That is the trade craft; that is what they do, for good reason. Clearly, the 19 hijackers exhibited this and we have seen this like type of action throughout the world recently.

We cannot afford to just focus on Al-Qaeda. We can't afford to focus on certainly the Islamic extremists. There is Hizballah, there is Hamas. There are even domestic terrorist organizations that still constitute a threat to this Nation.

I think Senator Biden's point was right on target that, to paraphrase, independently each of these terrorism and narcotics trafficking groups constitutes significant threats to our country. Together, it grows the threat. Clearly, as we put additional pressure, which the U.S. Government has, on nations for supporting and harboring terrorism, they are going to seek other ways of funding. And I can't think of a more lucrative way right now than drug trafficking, and it is there. There is no question about it.

There is no way that we can extract crime from terrorism. They are inextricably linked, which is one of the things I noted in my testimony. You recognized this back in the year 2000 when we talked about the convergence of international crime and terrorism. They depend upon it, and there is a myriad of violations. I mean, it is like reading a RICO indictment, from white collar crime, to burglary, to robbery, to homicide, to smuggling, counterfeiting and drug trafficking, which is the focus of this testimony today; credit card fraud, white collar crime fraud.

Mr. Casteel made a great point with the pseudoephedrine, and a lot of this diversion is happening with some of the groups that are associated with Hamas and Al-Qaeda and other Islamic extremists in the U.S. They are diverting this pseudoephedrine specifically to the drug trafficking market, it being a precursor to methamphetamine. That clearly is a problem.

Again, additional funds, and these funds that they generate are used for two reasons, either direct support in terms of funding of operations, and certainly there is that facilitation model. When we see a lot of convergence and overlap between the criminal world and the terrorist world, unfortunately often—or I will say fortunately, we will take down investigations, some would argue prematurely.

But there is a new paradigm and we can't afford—you know, unlike baseball where batting .700 will put you in the Hall of Fame,

what we are faced with today, the intelligence community, the law enforcement community and the FBI together—it only takes one act of terrorism and there is a failure, and we can't afford that.

So you will notice in a lot of our investigations that we will take down things that normally we might let continue on for a period of time to identify and be able to conclusively tell you that those links exist. The San Diego case is a perfect example that the Chairman spoke of earlier.

Thank you. I look forward to answering any questions that you might have and I appreciate the opportunity to be here today.

[The prepared statement of Mr. McCraw appears as a submission for the record.]

Senator KYL. Thank you very much, Mr. McCraw. I also want to make sure that we will have some time later to get into a little bit more detail, to the extent you can, on that last case. I think that will be very important for people to understand.

Mr. McCRAW. Yes, sir.

Senator KYL. Ms. McCarthy.

STATEMENT OF DEBORAH MCCARTHY, DEPUTY ASSISTANT SECRETARY, INTERNATIONAL NARCOTICS AND LAW ENFORCEMENT AFFAIRS, DEPARTMENT OF STATE, WASHINGTON, D.C.

Ms. MCCARTHY. Thank you, Mr. Chairman, members of the Committee. Thank you for the opportunity to speak today on behalf of the State Department. I am accompanied today by Mr. William Pope, the Principal Deputy Coordinator of the State Department's Office of Counter-Terrorism. I am going to request that my written statement be included in the record and I am going to do some extracts from it today.

As you know, well before September 11 the INL office of the State Department has been working to combat narcotics production, trafficking, international money laundering, cyber crimes and theft of intellectual property rights. For fiscal year 2003, Congress appropriated INL more than \$900 million to advance these objectives. S/CT has the lead in the Department for coordinating our activities in the war on terrorism. INL supports these efforts through counter-narcotics activities, anti-money laundering and crime control activities.

To counter the increasing linkage and overlap among terrorist, drug and other criminal groups, INL has begun integrating counter-narcotics and anti-crime programs. We do this through initiatives to build up law enforcement and justice systems in key foreign countries. In other words, we also help other countries develop their border control enforcement.

The terrorist interdiction program developed by S/CT installed powerful computer databases at airports and other ports of entry in friendly countries to enable immigration officials to cross-check passports and visas of arriving persons. We also work to develop stronger international law enforcement and financial regulation standards. We also have programs to fight corruption which are also part of our anti-crime efforts.

The sources of funds may vary between terrorists and other criminals and drug traffickers, but the methods used by terrorists

and drug traffickers to transfer funds are similar. Illicit finances are of special concern and we have focused a number of activities against the programs that they use.

In the past, state sponsors provided funding for terrorists. In recent years, however, as state sponsorship of terrorism has come under increased scrutiny, terrorist groups have looked increasingly at drug trafficking and other criminal activities as sources of revenue.

Fighting money laundering and terrorist financing, which we engage in, provides a particularly clear example of the need for inter-agency and international cooperation across crime-fighting and counter-terrorism disciplines. This is not to say that fighting crime and fighting terrorism are synonymous. There are important areas in law, policy, diplomacy and program management where the two must be treated separately. Law enforcement is one key tool among several in counter-terrorism.

In Colombia, however, the links between drugs and terrorism are of particular concern. Since the date of our previous testimony, a good deal has changed. A new president has come in, setting Colombia firmly on the course of strengthening its military and police forces to defeat the narco-terrorist threat.

In Colombia, we have mentioned the three main groups that receive revenue from narcotics cultivation, taxation and distribution. They provide at least half the funding that the FARC and the AUC rely on. We estimate that the ELN derives less of its support from drug trafficking.

Drug money facilitates terrorist operations. As the FARC has expanded urban operations, they may also be reaching out to international terrorists and additional technical expertise. The ongoing trial of the alleged IRA operatives arrested in Colombia in 2001 is but one example.

I will not go into the details of the various groups, as I think most people are familiar with them. I want to mention also that this Andean-produced cocaine and heroin passes through Central America, the Caribbean and Mexico, and we have noted the connection between the groups that pass the drugs.

The situation in Afghanistan, of course, is of note. We have ample evidence that the Taliban condoned and profited from the drug trade when it was in power. Since the Taliban was forced from power, we have seen reports that they and other groups seeking to undermine the regime of President Karzai used drug trafficking to arm their militia and mount operations against the government. Two other groups are worth mentioning, the Peruvian terrorist group Shining Path and, in addition, the Islamic Movement of Uzbekistan.

In addition to trying to curtail the flow of funds to terrorists from drug trafficking, we also have a number of other programs; as I mentioned, comprehensive anti-money laundering and counter-terrorist financing programs, but we also try to empower our allies to detect, prevent, disrupt, prosecute and seize the financial assets.

We now recognize the close relationship between money laundering and terrorist financing, as noted in our recent INCSR. We note also that we train people in a number of law enforcement

areas to increase our capability to prosecute and apprehend and investigate the cases.

INL works closely with a number of multilateral agencies, and in particular we have some new initiatives within the group of G-8 countries, which I refer to a little bit more in my testimony.

Thank you.

[The prepared statement of Ms. McCarthy appears as a submission for the record.]

Senator KYL. Thank you, Ms. McCarthy.

Finally, Mr. Clark.

STATEMENT OF JOHN P. CLARK, INTERIM DIRECTOR, OFFICE OF INVESTIGATIONS, BUREAU OF IMMIGRATION AND CUSTOMS ENFORCEMENT, DEPARTMENT OF HOMELAND SECURITY, WASHINGTON, D.C.

Mr. CLARK. Good morning, Mr. Chairman, distinguished members of the Committee. It is a pleasure and privilege to be here today to discuss the efforts undertaken by the Bureau of Immigration and Customs Enforcement, BICE, in its role in investigating international drug smuggling and money laundering as it relates to narco-terrorism.

Prior to beginning my specific testimony, I would like to take some time to provide background on our new bureau.

With the creation of the new Department of Homeland Security, the investigative and intelligence functions of the former U.S. Customs and Immigration and Naturalization Service have been merged to form the Bureau of Immigration and Customs Enforcement under the Department of Homeland Security. In addition, the bureau includes the Air and Marine Interdiction Division, the detention and removal program, and the Federal Protective Service.

BICE utilizes the broad legal authorities of its legacy components to investigate and enforce violations of the law as they did previously, and under BICE will continue to protect the United States and its citizens from the dangers posed by criminal organizations, including those linked to narcotics trafficking and terrorism.

BICE has the authority to investigate numerous violations, including violations of immigration law, export laws, money laundering, smuggling, fraud and cyber crimes, including child pornography. BICE investigations have led to the identification, penetration and prosecution of individuals and groups who are identified as being members of or linked to designated terrorist organizations such as the FARC and the AUC.

Furthermore, BICE, with its formidable money laundering and counter-narcotics programs and initiatives, has disrupted and dismantled narcotics smuggling organizations and the financial mechanisms utilized to launder their criminal proceeds.

It is one of our top priorities to identify, investigate and dismantle the criminal organizations that specialize in the transportation and smuggling of contraband and illegal aliens. The title of this hearing today, "Narco-Terrorism: International Drug Trafficking and Terrorism—A Dangerous Mix," is, in essence, the challenge faced by BICE agents on a daily basis.

The transportation organization that is paid to smuggle cocaine today may very well be contracted to smuggle instruments of terror

or terrorists tomorrow. It is clearly evident that the illicit narcotics trade generates enormous profits for criminal organizations. These organizations thrive on their ability to amass huge sums of money.

BICE utilizes a multi-pronged approach to investigate these organizations. In an effort to disrupt and dismantle these organizations, BICE focuses not only on the inbound smuggling of contraband, but also the outbound flow of criminal proceeds.

BICE's authority to conduct financial investigations has been derived from a variety of laws. BICE began conducting financial investigations after the enactment of the Bank Secrecy Act, the BSA, in 1970, and expanded their investigations with the enactment of the 1986 Money Laundering Control Act, the Anti-Drug Abuse Act of 1988, and the 2001 PATRIOT Act.

In addition, various memoranda of understanding between the Secretary of the Treasury, the Attorney General and the Postmaster General have been executed regarding the conduct of money laundering investigations. These MOUs delineate the specific unlawful activity and investigative authorities in which BICE has jurisdiction.

Since its inception, BICE has had the authority to enforce anti-smuggling statutes, to include 18 USC 545. This authority allows BICE the ability to investigate the unlawful importation of any contraband. With Title 21 cross-designation, BICE has been authorized by the Department of Justice, and more specifically the Drug Enforcement Administration, to investigate narcotics smuggling organizations.

Enforcement of Title 8 of the U.S. Code allows BICE to target individuals or groups of individuals who are attempting to or have entered the United States for illicit purposes. These authorities, combined with our broad border search authority, place BICE in an ideal position to fully investigate smuggling of contraband and humans by sophisticated smuggling organizations, while also targeting the financial mechanisms utilized by these elements to launder their illegal proceeds.

One such laundering mechanism is the Black Market Peso Exchange, BMPE, a trade-based money laundering system. The Exchange allows drug traffickers to transfer their U.S. profits from dollars to pesos without moving cash across borders.

BICE has an ongoing, aggressive investigative approach concerning the BMPE which includes utilizing investigative techniques such as undercover investigations, Title 3 wire intercepts, intelligence-gathering, international coordination and training of our international law enforcement counterparts.

BICE undercover operations directed at the peso brokering system have resulted in the seizure of more than \$800 million in cash and monetary instruments over the last 8 years. Undercover investigations conducted by BICE have targeted hundreds of Colombian brokers, accounts and domestic money laundering and drug trafficking cells operating in U.S. cities, Central and South America, as well as Europe and Asia.

A few case examples: Operation Wire Cutter was a major joint money laundering investigation conducted by BICE, the Drug Enforcement Administration, personnel assigned to the U.S. Embassy in Bogota, Colombia, and Colombian law enforcement authorities

that targeted high-level Colombian drug trafficking organizations and their cells.

The primary defendants in Operation Wire Cutter were eight senior money brokers located in Bogota, Colombia. Each of these money brokers had distinct organizations that provided money laundering services to several drug cartels on a contract basis. Subsequently, undercover BICE agents picked up drug money from operatives of the money brokers in New York, Miami, Chicago, Los Angeles and San Juan, Puerto Rico.

At the same time, the Colombian authorities conducted a parallel investigation on the BMPE money brokers and their associates in Colombia. Operation Wire Cutter marked the first time that U.S. authorities were able to combine undercover pickups of drug proceeds in this country with the investigative efforts by Colombian authorities to target BMPE money brokers.

Operation Wire Cutter resulted in the arrest of 37 individuals, 29 in the U.S., 8 in Colombia. U.S. authorities also seized more than \$8 million, as well as 400 kilograms of cocaine, 100 kilograms of marijuana, and 6.5 kilograms of heroin. To date, five money brokers in Colombia have been extradited to the United States. This represents the first time that a money broker has been extradited from Colombia to the United States.

As I mentioned previously, the transportation organization that is paid to smuggle cocaine today may very well be contracted to smuggle instruments of terror tomorrow. By using internal conspiracies, criminals utilize corrupt personnel within the seaport and airport environments to introduce contraband or implements of terrorism into otherwise legitimate cargo or conveyances, and to remove it prior to examination by the Bureau of Customs and Border Protection.

In an ongoing investigation targeting internal conspiracies at one major U.S. seaport alone, BICE special agents have uncovered the endemic practice of contraband being removed from international cargo prior to the entry process. Utilizing a variety of investigative techniques, including undercover operations and controlled deliveries to successfully infiltrate the internal conspirators, hundreds of individuals have been arrested and convicted, thousands of pounds of cocaine have been seized, and hundreds of pounds of heroin as well.

Another significant internal conspiracy investigation conducted by BICE agents in conjunction with the Drug Enforcement Administration was Operation Ramp Rats. Ramp Rats targeted corrupt employees working at Miami International Airport and resulted in more than 70 indictments and arrests. Thirty of those arrested were employees of a major domestic airline. Those arrested in this investigation were charged with various violations of Federal narcotics laws, such as conspiracy to import cocaine into the United States and conspiracy to possess cocaine.

Both of these investigations have targeted corrupt employees in the transportation industry, resulting in the facilitation of smuggling schemes used by criminal organizations. BICE is aggressively implementing programs to address these weaknesses that include the assignment of additional investigative personnel, the utilization

of improving technology, and the combination of various law enforcement and security components to counter these threats.

Recently, BICE drug trafficking and money laundering investigations have highlighted the link between drug trafficking and terrorist organizations. An adjunct of these investigations is the link between the drug trafficking organizations and Colombia's illegal armies.

In October 2002, BICE arrested Libardo Ernesto Florez Gomez after he arrived at Miami International Airport. Upon arrival, he declared over \$180,000 in U.S. currency. A subsequent secondary examination revealed multiple financial records, blank pre-signed checks, a DEA seizure letter, and a document that alleges his links to the FARC. Florez Gomez admitted that the funds declared were not his. On April 4 of this year, 2003, Florez Gomez pled guilty to one count of 18 USC 1960 for his involvement in operating an unlicensed money transmitting business and is currently awaiting sentencing.

Currently, BICE is participating in a highly successful joint organized crime drug enforcement task force with the Drug Enforcement Administration and the Federal Bureau of Investigation that is targeting the maritime transportation of multi-ton shipments of cocaine belonging to the Colombian drug cartels.

This investigation has led to indictments against several ostensibly high-ranking members of the AUC. These individuals were indicted for involvement in the maritime transportation of over 12 tons of cocaine. As a result of the investigation, a direct link between drug trafficking and known terrorist organizations has been established. Narco-terrorism will continue to be a top priority of BICE.

In conclusion, I would like to thank the distinguished members of this Committee for the opportunity to speak before you today and will be glad to address any questions you may have.

[The prepared statement of Mr. Clark appears as a submission for the record.]

Senator KYL. Thank you very much, Mr. Clark.

One of the common threads throughout your testimony suggest to me a question about sharing of information not only among the Federal agencies, but also with local authorities.

Mr. McCraw, I wanted to ask you this question. Would it be your view that there are at least possibly some legislative changes needed to provide more information to State and local officials, particularly information gathered through grand jury investigations? Do you have any comment on that?

Mr. MCCRAW. Well, Senator, I have to get back in terms of specifics before I wax on about what we need or don't need. However, it is a topic near and dear to my heart, and the Director's as well, as to how much information we can push out because the army out there is the State and locals. I mean, it is their job. They have got the public safety mission right up on the front lines.

To the extent that we can use whatever we can in terms of statutory authorities—and, frankly, the PATRIOT Act has helped much—and also to get key individuals within the local law enforcement community their security clearances because some of this in-

formation, as you well know, is classified for good reason—yet, no longer can they work in a vacuum.

I mean, there is information that happens overseas that affects the chief of police in Tucson, the chief of police in San Antonio, and they need that information. We are involved in a number of information-sharing initiatives right now where we can use technology to push information to them, as well as to our intelligence community partners.

Senator KYL. Would you do me a favor? If you could communicate with others in the Bureau or with the Department of Justice to get an answer to that question, I would appreciate getting that for the record.

Mr. MCCRAW. Yes.

Senator KYL. But just to the rest of you now, are there any other issues with respect to information-sharing that you think is important to bring to the attention of the Committee?

Yes, sir, Mr. Casteel.

Mr. CASTEEL. It is interesting. Information-sharing has become my life for the last 3 years, so I would like to comment on a couple of things, if I could.

Number one, when we talk about intelligence and when I speak before the intelligence subcommittees, I often point out in the back of the room our seal doesn't appear there. We are not part of the IC world and so we look at intelligence a little bit differently. We think there are two models for intelligence. One is the IC model, but one is a law enforcement model, and they are two different things. When you talk to the local chiefs of police, they may not understand the IC world, but they recognize what they want and what they need.

To sum up the two models in two words perhaps, the IC model is based on getting to know something. The law enforcement model is based on being able to do something with that information. So I do see at times from a law enforcement perspective a concern that we are going down this IC road model for the development of intelligence-sharing and that may not be the correct road to go down. We need to recognize who the customer is and what they want.

The second thing within intelligence is within our model you have the first responder. And you have heard that term used a lot, "first responder." Well, they have an important role also in intelligence. Unlike the IC world, in law enforcement we have no collectors. Our collectors are those first responders out there every day of the week collecting information, and information is of value.

We just recently closed one of our offices in Pakistan, not because of something we received from the IC community, but two local police officers there catching the people stepping off the distance to our front door to plant the bomb. The first responder has a role here.

As we are looking at this, we are also putting a tremendous amount of money into technology, data-mining, terms like that. We have to remember there are two other parts to this. Technology is one answer, but the first responders need to be trained. They need to recognize what they do for a living is important for intelligence. You need more analysts on the other end to look at that intelligence.

And last but not least, I have been a policeman for over 30 years. I only do what benefits me. If I don't get information back, then as a police officer I am not going to want to be part of this system. So I do think we do need to look at that.

Last but not least, Lord knows we have made enough mistakes in the drug arena when it comes to information-sharing. But over 30 years, we have tried to overcome many of these mistakes and I think we have learned a lot. I think we have learned a lot that would make a good template. Rather than reinvent a lot of things, move that template over into the terrorist arena.

I go to meetings and I hear people say, you know, we need to be able to give more tactical information to the State and locals. Well, we have done that. We have got EPIC that has been there for 28 years, getting tactical information to that police officer on the side of the road halfway between Omaha and Lincoln at three o'clock in the morning.

I hear them say the military and law enforcement have to be commingled in their information-sharing better so they both can take action. We do that already in JATF East, now called JATF South, where information from law enforcement overseas is given to the military, who takes action that leads to evidence that we put back in our court system. So that model is very important, sir.

Thank you.

Senator KYL. Any other comments on that?

Go ahead, Ms. McCarthy.

Ms. MCCARTHY. I just want to make one comment that without the cooperation that we get among other law enforcement agencies, INL could not do its work, and I will point to the eradication effort in Colombia. To send the planes out to get the crops, we have to work with agencies to find out where the crops are. But also more importantly, we have to work with other agencies to get the information to find out where the guerrillas are so our planes don't go out and get shot down and it results in more hostages.

Senator KYL. Thank you.

Mr. Clark.

Mr. CLARK. This is the fifth week of five very long weeks in my life, having just reported up here from Miami. On a good note, I would say, though, that there are positive improvements in terms of information-sharing, first, on the Federal level.

In the five weeks I have been here, I have had the opportunity to sit down with representatives from both the Drug Enforcement Administration as well as the FBI, and we are working on improving our coordination and intelligence-sharing in many aspects.

On a State and local level, first responder level, in my previous life I was the special agent in charge for customs investigations in Miami. I know we are taking very positive steps in terms of working with the first responders. We have a blue lightning operations center down in Miami which has always incorporated State and locals. It works under the HIDTA, High Intensity Drug Trafficking Area intelligence center.

We have incorporated that operation now to work on operations at our borders that address terrorist threats, as well as drug trafficking. Through that operation, we are able to share a lot of information that is not classified with the State and locals to give them

a sense of ownership of what we are doing and enlist their assistance in helping us at the borders. So there are some positive improvements along those lines.

Senator KYL. Well, you can see that is an emphasis of ours and we just need to have you identify any institutional or legal impediments to that sharing if they exist.

Senator Biden.

Senator BIDEN. Thank you very much, Mr. Chairman.

I want to focus on three areas to just sort of give you a heads-up here. One is what our targeting priorities are. Two is what knowledge and detail we have about the impact of actual funds in the hands of terrorist organizations. And, three, the allocation of our resources domestically, the Federal budget, how we allocate those resources and whether we could do it better.

Now, I, like all of you and the Chairman, have spent a great deal of time dealing with the Andes, and Colombia in particular. But I want to make a point here. The very existence of that democracy is at stake and whether or not it becomes a narco state or whether or not it is able to gain control. That is consequential to us short-term and long-term, but it is not nearly as consequential to us as whether or not Al-Qaeda has an extra \$200 million to spend.

None of you has talked about priorities here. We talk about terror like all terrorists are created equal. All terrorists are not an equal threat to us. Nobody from the AUC is attacking directly the United States of America. We spend hundreds of millions of dollars aiding and assisting the Colombian government to deal with the AUC. We have trained their military. We have trained them explicitly to try to deal with the internal problems of the Colombian military.

If we took all the money we were spending in Colombia and if we spent it all we could cut off all narcotics funding to Al-Qaeda, the American people in a heartbeat would say stop it all for everything else and take care of Al-Qaeda. My dad, who just died, used to say if everything is equally important to you, nothing is important to you. The reason I wrote the drug czar law in the first place was we didn't prioritize.

My question to you is this: from each of your different perspectives, how are you charged? What is your number one priority? What terror organization, not generically—and if it is generic, then I think we have a serious problem. What is the bulk of your focus?

Some of us are beating the living devil out of, with good reason, the Saudis for not having cut off quickly enough, directly enough and profoundly enough, not having changed their banking system, not having used their authority to get their billionaire cousins to stop funding indirectly and directly Al-Qaeda and their madrases.

What good does that do? We are risking, with good reason, a relationship that has profound consequences for us, including whether these lights go on or not and how much it costs to turn them on. In fact, the amount of money that Al-Qaeda may be getting through Afghanistan alone may make up for all the lost revenue. I don't know. It may.

So my question to you is, starting with the State Department—and my first question for you, Ms. McCarthy, is why don't you have a boss? I am not being facetious. What is the reason, what is the

inside skinny? Why have we not had this as a priority? Why don't you have somebody running the show there? That is my first question.

Ms. MCCARTHY. I believe we should have some information on that very soon, Senator.

Senator BIDEN. That is kind of an unfair question to ask you, actually.

Ms. MCCARTHY. We would be happy to have a boss.

Senator BIDEN. I should withdraw the question. There is no way you would know. It is above your pay grade, and mine maybe as well. But it is a reflection, in my view, of the lack of it being a priority.

Number two, do you have a priority list internally as to where the focus should be in this nexus between terrorist organizations and drug trafficking? The State Department first.

Ms. MCCARTHY. For the INL bureau, our top priority continues to be the Andean region and counter-narcotics activities there. Approximately 80.9 percent of our 2003 funds go to that area, Panama, and a couple of other countries.

Our crime programs, which include money laundering and others, on which we work with a priority list of countries who have been designated as of special significance, accounts for a very small portion of our budget. So in terms of what INL does, again, to build up law enforcement, build up capacities, as opposed to going after groups specifically—it continues to be the Western Hemisphere, and particularly the Andean Ridge.

Senator BIDEN. Now, I want to make it clear we urge you to do that, so I am not being critical. We, the Congress, and past administrations and this one have had that as a focus. But I just want to make the point that 81 percent of all your effort, money and funding has nothing to do with the organizations that create the greatest immediate threat to the citizens of the United States of America here and abroad—nothing, zero, nothing to do with it.

Now, let me ask the question of each of you. DEA?

Mr. CASTEEL. We have both, I would say, Senator, long-term and short-term goals here. Let's talk about short term because I think it addresses your question better than others.

Obviously, as you said in your opening remarks, we have focused on Latin America for a long time because that is where the majority of actual drug availability on the street comes from.

Senator BIDEN. It still does.

Mr. CASTEEL. But I want to assure you that we are not just focusing simply on that in the short term, and let me give you two examples. One month after 9/11 occurred, we held a meeting in Turkey and we brought together almost 30 countries of the world to address what we called Operation Containment.

We recognized that Afghanistan is a bit like holding sand in the palm of your hand; the tighter you squeeze, the more it kind of gets out through your fingers.

Senator BIDEN. I disagree with that metaphor, if I understand it.

Mr. CASTEEL. What I mean by that is if you just focus on that one country and say, okay, we are going to fix everything in Afghanistan, and think you can build a perimeter around it and fix the drug problem there, I think you are wrong.

I go back again to your opening remarks. You and I were around when Nixon coined the phrase “war on drugs,” and the first approach was build big borders around the United States and that was how we were going to solve it. With Afghanistan, yes, you have to create a capability within that country to address that problem, but then you build rings around it, fences around it. That was the goal of Operation Containment. We brought groups together, countries with equal concerns, and we have had some degree of success building these rings, these fences, around Afghanistan.

Senator BIDEN. Give me an example of success because I see none.

Mr. CASTEEL. We seized 1.2 tons of heroin crossing the border in Turkey at three o'clock in the morning at a small border checkpoint.

Senator BIDEN. Well, you have done that before. You have scores of examples of that.

Mr. CASTEEL. We identified a group there that we didn't know about before, a group that had connections to other interests in the region.

Senator BIDEN. This is not a general little deal here. What other interest in the region?

Mr. CASTEEL. It was a group that we had found that were now moving their heroin laboratories into that region of Turkey to produce large amounts. We seized that. That led to the—

Senator BIDEN. Was that group connected in any way—this is about terror, this hearing in particular, not just drugs generically, but terror. Was that group connected in any way with Al-Qaeda, the Taliban or any other terrorist organization, as we define here?

You could argue that every international drug cartel is a terrorist organization. What my folks back home mean by terrorists is people who load planes up and crash them into buildings. What they mean is people are getting money to go out and buy highly-enriched uranium to try to build a bomb. They mean people who are going to go out and build a dirty bomb. They mean people who are going to go purchase botulism. They mean people who are going to go out and do those bad things that Governor Ridge talks about all the time and we worry a great deal about. So let's get it real straight what I am asking about here and what the focus of this hearing is, at least for this Senator.

What is the connection between these trafficking organizations you are interdicting—and you are doing a good job at interdicting them—and the organizations that are the ones that are going to use weapons of mass destruction and/or catastrophic actions to cause significant numbers of deaths in the United States and Americans abroad? That is what this is about.

Now, please tell me whether or not the interdiction you had on the Turkish border or the movement of laboratories into Turkey which I mentioned in my opening statement—whether or not that has any direct relationship with the funding of terrorist organizations who are seeking to create significant numbers of American deaths as a consequence of their actions. If you don't know, that is okay.

Mr. CASTEEL. I don't know other than to say that opium originated in Afghanistan. The people who are controlling it Afghani-

stan are one of two groups, the tribal organized crime groups that have existed there that have a relationship with the Taliban or the Taliban. So, indirectly, it all goes back there.

Let me give you another example, though, that might be a little closer to the point about prioritizing the targeting efforts toward terrorism. Last week, I was in Australia. I was sitting in Australia with five other nations of the world, to include the UK, Canada and the Australian Federal Police.

What we did there was to begin a targeting process to identify drug trafficking organizations that affect each and every one of our countries. Now, DEA was the only agency sitting there at the time that doesn't have terrorist responsibilities. If you are in Australia, the Australian Federal Police has a priority on that. If you are in Canada, the RCMP has a priority on that. If you are in the UK, the same thing.

As we sat down and started to approach these priorities, obviously those other countries represented there put terrorism as their number one reason for wanting to target these. So there are processes going on. This transnational policing approach requires this type of collaboration and partnership.

Senator BIDEN. I agree with you.

Mr. CASTEEL. So there are targeting approaches going on within DEA that tie to terrorism.

Senator BIDEN. Let me give you a specific example, and I don't want to get any of your agents in trouble. For 30 years, as I traveled to countries, as you probably know, I find your agents and I sit with them. This has been a passion of mine for my entire career.

Sitting at Bagram Air Force Base and dealing with your agents, there are no stovepipes there anymore and so you have a DEA agent sitting next to an FBI agent, sitting next to a CIA agent, sitting next to Defense Intelligence Agency personnel, sitting next to the commander of special operations all around a big table.

Your guys were telling me exactly what was going to happen. They laid it out. Unless we established security in the provinces, the mayor of Kabul can't do a damn thing. There is nothing Karzai can do to follow up his edicts—zero. We have 8,000 forces there no longer pursuing with the same—well, officially no longer pursuing the Taliban and Al-Qaeda in the same way we did before, but not out in the countryside. We have 200 forces out in the countryside in these—what we were going to call them? What were these things called, instead of expanding?

Come on, somebody on the staff. There is a name for it. There is a great little acronym for these forces that were going to go out for reconstruction in the countryside. So you go out to build a dam and we were going to provide “x” number of military to go with the agency building the new sewer system or whatever. It has a name and I am amazed my staff doesn't know it. I am amazed I don't know it.

But having said that, we have got 200 folks out in the field in uniform. Now, your guys told me, hey, Joe, do you think we are going to be able to stop poppy production on a grand scale if we cannot secure the region?

Karzai sends out an edict and what happens? Ismael Kahn says, yes, okay, the mayor had something to say; I don't know what it was. The Pashtun, which he is part of, say, oh. He has no authority, no authority.

What bothers me about your collective testimony, not any of you individually, is everybody knows that is for sure one of the revenue streams for the Taliban, particularly in the Pashtun area, and in turn Al-Qaeda, although we don't know for certain. None of you know enough to tell me. The intelligence community doesn't know enough to tell me. We don't know even what we don't know. So my frustration, as you can tell, is not with any one of you; it is our allocation of resources and the prioritization.

Mr. Clark, you have been here for five weeks. You have done a great job and you are going to do a wonderful job because you did a hell of a job in Miami. You have got your hands full with this new outfit. It has sprawling jurisdiction.

But you never once mentioned, not once, the only thing that concerns Americans right now, any terrorist organization that is likely to send in the phone call taking credit for a bus stop in Buffalo, a building in Wilmington, Delaware, a tower in Chicago, a discotheque in San Francisco or anywhere else.

I am not picking on you; I really am not. But I am trying to point out that we don't have our act together yet. We do not have our act together yet and it is worrisome. So at some point maybe we should have a classified hearing with the intelligence agencies, and you included, to tell us what you actually know about following the dollar from the time the farmer plants the poppy in Afghanistan or anywhere else to the moment that a bank account is opening in a cell that is an Al-Qaeda cell in Riyadh or in Islamabad or in New York City, and the extent that we can follow the dollar, if we can. That is the part we don't know.

The Chairman is back and I will come with a second round. Well, I guess I won't come back. I will just state that I really think we are misallocating our resources here. I do not think that we have sufficient information, and it is understandable, about the direct link between the actual production and the actual processing of, in this case heroin, but it could be other drugs as well, and the bank account of Al-Qaeda.

Ms. MCCARTHY. Senator, I know you are focused on the money lead and that is an excellent question. I just wanted to add a piece of information. I think you were referring to what are called the provisional regional teams.

Senator BIDEN. Thank you. Provisional regional teams. I love that.

Ms. MCCARTHY. Well, we have some monies. INL has a small effort in Afghanistan that is \$60 million for 2003 basically to boost capacity of the police and law enforcement. But, in general, all those operating over there—there is the acceptance that security in the countryside and, as I said, as a corollary stopping the flow of drug money to the warlords, is the top priority.

Senator BIDEN. Yes, and unfortunately you don't have any ability to do it yet. Maybe we are going to have a little epiphany here—not you all—and we are going to see the light and figure out that there is no way. It is a little bit like saying that we are going to

stop—well, anyway, I am taking too long, but it is something we want to work with you on. But we really have to get to the directors of each of your departments to be able to—yes, Mr. McCraw.

Mr. MCCRAW. Senator, if you don't mind, just quickly to underscore, I think, the importance of what you said in terms of prioritization, as I testified earlier, there is no question that Al-Qaeda is the greatest threat; there is no question, and Islamic extremists which have really morphed into that Al-Qaeda threat. We talked a little bit about Hizballah, Hamas, and we can work our way down the chain. All of them have the potential to raise to a threat, but right now, without question, the Director has named the priorities. The priority is international terrorism, and in that Al-Qaeda is number one.

With your permission, with Congress' support, we have diverted substantial criminal resources to divert because there is one guiding principle here. No lead, no matter how obnoxious—not obnoxious, excuse me; we are getting close here—seemingly absurd, will go uncovered. We have to address everyone.

And the way we address it is rather than following the seed and the poppy back, we look at the enterprise itself. So when we find trafficking in it, we exploit that like we did in San Diego or with DEA in New York. If we find that it is immigration violations, we work with our colleagues in BICE. It doesn't matter what the violation is. We know what their ultimate goal is and we will use any violation and any tool that we can take out of the toolbox that the Congress and the Constitution have provided us to disrupt that activity, because the name of the game is prevention and that is clearly the priority of the FBI, and I would submit the intelligence community as well.

I would like to say something publicly. DEA has been a tremendous support to the FBI not just in joint investigations, but actually Steve himself called me on 9/11 and gave us analysts and agents to help out in this particular fight.

Senator BIDEN. I am absolutely confident of that. That is why I am so happy we didn't let you merge, which you all wanted to do and I was able to help stop.

[Laughter.]

Senator BIDEN. Let me ask one last question, Mr. Chairman, and I won't ask any more.

Steve, eradication. Doesn't the circumstance in Afghanistan lend itself geographically, the topography, to the ability to eradicate more easily than it did even in Mexico in the 1970's, and clearly in Colombia?

As an adjunct to that, the Taliban did a pretty good job. They shut the sucker down, they shut it down. So it is kind of interesting that they could shut it down. We are not looking for a pure democracy in Afghanistan. We are not following Karzai with the American Civil Liberties Union behind him.

It seems to me we should be able to be mildly more effective in Afghanistan than we have been, or am I missing something here?

Mr. CASTEEL. Well, obviously, the Taliban had a little more freedom, as did the Communist Party in China when they took over. If you remember, they had a tremendous opium problem and in 3 years it was gone. When you execute people and chop people's arms

off and things like that, they play a little different game that we have.

Senator BIDEN. By the way, this is still an Islamic state. Karzai still has the ability under the law to do similar things. He just doesn't have any means of enforcing it.

Mr. CASTEEL. The issue of eradication has been discussed often, especially with our British colleagues. I think you spoke earlier about the importance to Europe of this, 90 percent of their heroin coming from that point. I think it is just one tool in your tool belt that you use.

You and I have been around long enough that everybody walks in with that one McDonald's answer for everything. I just think as long as you consider eradication as one of your tools—and by the way, it works in places. Peru and Bolivia are perfect examples of how eradication can work when it is tooled together with several other issues at the same time.

Senator BIDEN. Thank you, Mr. Chairman. I appreciate your indulgence.

Senator KYL. Thank you, Senator Biden.

Mr. McCraw, I wanted time and I will make this the last question, but I would like to take a little time to the extent that you might be able to expand on your testimony, notwithstanding the fact that both of these matters are, I believe, are still under investigation, to tell us all that you can about the arrest of the 16 Afghan and Pakistani subjects possibly linked to the Al-Qaeda and the Taliban that you referred to in your testimony, and also the arrest and prosecution in San Diego of the individuals who were, as I referred to in my opening statement, caught trading heroin and hashish for cash and Stinger anti-aircraft missiles.

Mr. MCCRAW. Yes, sir, and thank you for phrasing it that way so I can still within the four corners of the indictment. The major case 190, the Crown Prince investigation, actually started as a result of criminal violations being worked, and then it branched out to where we were able to see a number of different FBI cases converging in New York, and then soon later DEA cases converging in New York.

They indicted the 16 Afghan and Pakistani subjects in this particular case. We can make that clear distinction. We know that the money and the crimes they had been involved had been funneled back and they were funneling money back through Pakistan into Afghanistan.

The degree in terms of the links—clearly, there were some associations, and I am reluctant to go into detail. There were associations there. Sometimes, when you take investigations down at certain points, you aren't able to establish, without question, certain links over the course of the forthcoming trials we may bring to bear. But clearly there was a concern.

I guess it can be used certainly as a model to illustrate your concern, Senator, Senator Biden's and the Chairman's concerns about the problems with drugs and the funding that they can provide to support and also facilitate drug trafficking or terrorist activities.

The San Diego case was purely a drug case when it started. An undercover agent in San Diego working on the drug squad devel-

oped a source who developed a subject and was negotiating in terms of the purchase of heroin and later hashish.

During the course of this, some links were established that looked like there was some association. Again, many of these groups use different criminal organizations. Terrorist groups share those, so there were some links and it morphed into a counter-terrorism investigation before it was all over with, using drug, criminal and counter-terrorism resources.

The most disturbing part of that is when the undercover agent was overseas in Hong Kong negotiating for these 5 metric tons of hashish and 600 kilograms of heroin—during the course of it, unsolicited, they said, hey, you know, we would like to have—paraphrasing here, we would like to have four Stinger missiles that we intend to provide to others that we suspect will be used for shooting down U.S. airplanes. That was in the indictment.

I really can't go further in terms of discussions, but certainly if that doesn't send a chill down everybody's back in this room, I don't know what will. Obviously, we took the case down. I mean, you could argue that we should have kept it going, but the fact that they were going to get the four Stingers from us doesn't mean they weren't looking for four Stinger missiles. And we couldn't risk that opportunity or that threat and we did take it down. As you know, it is pending trial at this point in time and we have been able to work with the People's Republic of China or Hong Kong to have them extradited to the U.S.

Senator KYL. Where will that trial be held?

Mr. MCCRAW. San Diego, sir.

Senator KYL. Okay, and the timing on that is?

Mr. MCCRAW. I couldn't give you an exact time. I can get back to you, Senator.

Senator KYL. Okay. Well, this is the kind of thing obviously we will want to follow, and it causes me to make a final point. If any of you would like to comment on this, fine. Otherwise, we can move on to the next panel.

One of the things that we have had a little trouble grappling with here in the Congress in trying to write laws or amend laws is an understanding that the kind of people that we are dealing with now are unlike past organizations or state sponsors of terror. And the point you just made, Mr. McCraw, I think, ties into this very well.

You don't have necessarily representatives of other nations engaged in this activity, though that does happen. You don't necessarily have members of an explicit terrorist organization, like a Hizballah, for example, which is relatively close-knit, although that happens.

Frequently, you have people who are Islamic jihadists, simply people associated with a cause that don't necessarily belong to any organization, as we in the West tend to think of belonging to an organization. They simply belong to a movement and they may be associated with or have dealings with people that we call Al-Qaeda. They may themselves be Al-Qaeda at one time or another, but they may simply be acting out this hatred toward the United States and not really affiliate with any particular organization, per se.

They may also be dealing with criminal enterprises, as you note, to accomplish their goals, trafficking in drugs, money laundering and the sort, or they may be doing this again as individuals. So when we write laws that tend to try to categorize things, we get into trouble, and we need to always be cognizant in writing these laws to understand the new nature of the threat which is amorphous, undefinable frequently, people moving in and out of organizations, in and out of criminal enterprises, lots of different cut-outs, and therefore needing a different kind of description frequently in order for us to be able to satisfy the requirements of the law in many cases.

That is something we have become aware of and we haven't really mastered the notion in all of what we are doing. We recently passed out of the Senate an amendment to the FISA law that recognizes that fact and attempts to deal with the lone wolf terrorist or the terrorist that may or may not be associated with an organization, but at least at the time we are trying to get the warrant we don't know for sure. So that was at least one recognition of that problem, but there are clearly others, too.

Any comments on that particular point before we move on? Any disagreement with it?

Mr. MCCRAW. Absolutely not. I fully agree with you, Senator.

Senator KYL. Okay, great. Well, we appreciate your comments here. We are going to leave the record open one week for members to submit questions to you or for you to provide any other information to us. But don't stand on that formality. If there are other things that you think would be beneficial to the Committee, I would like to ask you to get them to us.

The Subcommittee on Technology and Terrorism, which I Chair, will be having a couple of hearings soon, one of which will be on money laundering, and we will try to get your ideas on those subjects as well.

We thank you very much for being with us this morning. With that, I will excuse this panel and we will move to the next panel.

The next panel will consist of Mr. Raphael Perl, specialist in international affairs at the Congressional Research Service here at the Library of Congress; Mr. Rensselaer W. Lee, President of Global Advisory Services, in McLean, Virginia; and Mr. Larry Johnson, Managing Director of Berg Associates, in Washington, D.C. We welcome all of you to this hearing, as well.

I think the order we will do it in is Mr. Perl, then Mr. Lee, and then Mr. Johnson, if that is all right with the three of you. So as soon as we get settled down here, I will call upon you.

We were anticipating the possibility of a vote, but now it appears that we won't be interrupted. We may need to conclude by noon, but I think we should be able to do that, especially if I am not joined by others here at the dais.

Mr. Perl, why don't you begin? Thank you.

STATEMENT OF RAPHAEL PERL, SPECIALIST IN INTERNATIONAL AFFAIRS, CONGRESSIONAL RESEARCH SERVICE, LIBRARY OF CONGRESS, WASHINGTON, D.C.

Mr. PERL. Thank you, Mr. Chairman. I would like to ask that my written remarks be submitted for the record.

Although their objectives differ with drug traffickers seeking profits and terrorists seeking political aims, both thrive on instability. Instability provides fertile ground for their ongoing operations and expansion. The combined threat and activities of drug-trafficking and terrorist organizations pose an escalating danger to societies worldwide.

Even in instances where groups do not actively cooperate together, the synergy of their separate operations and shared efforts at destabilization pose an increasing threat. Whether by design or happenstance, each group serves as a force multiplier for the other, and many experts view as imperative that these threats be addressed together, not separately.

There are many similarities between drug-trafficking and terrorist groups. As we have heard today, both operate transnationally, benefitting from trends associated with globalization and an open, deregulated environment. Both thrive in regions and areas without effective government control, where the line between the criminal world, the drug-trafficking world and the terrorist world is becoming increasingly difficult to draw.

Both exploit porous U.S. borders and seek loopholes in immigration controls. Both rely on the services of the criminal underworld. Both target civilian populations, one with indiscriminate killings, the other with drugs. And both target youth, either for recruitment into drug use or into terrorist cells. Approximately one-third of the groups on the State Department's Foreign Terrorist Organization list have reported drug-trafficking links.

It is also worthy to note that at least four of the seven nations on the State Department's Sponsors of Terrorism list have some history of condoning or supporting drug trafficking—Syria, Iran, Cuba and North Korea. However, as overt State support of terrorism has decreased, it seems that, increasingly, terrorist organizations must fend for themselves. The drug trade provides an attractive source of income.

The involvement of terrorist groups in the drug trade, and vice versa, presents both challenges and opportunities for policymakers. One challenge is the tradeoff where counter-terrorism priorities overshadow counter-drug agendas. Could situations arise where giving priority to anti-terrorism goals detracts from the effectiveness of anti-drug efforts deemed important to the national interest?

A second challenge relates to the fact that not all drugs produced or trafficked by terrorist groups are destined for the United States. If our drug enforcement community increasingly focuses on interdicting drugs not designed for the United States, does this reduce the resources available to keep foreign drugs off the streets of our cities?

A third challenge is how the priorities of counter-drugs and counter-terrorism can be reconciled, as is the case in Afghanistan today. And many observers also cite a fourth challenge, a need to reverse a longstanding erosion of America's ability to conduct diplomacy abroad largely as a result of budgetary limitations. Arguably, investing in diplomacy may help to deal with these problems and may prove far less expensive in the long run.

The challenges posed to the United States and the world by the combined threat of drug traffickers and terrorist groups are formi-

dable. But with challenges come opportunities. When terrorists engage in the drug trade, they become increasingly vulnerable to law enforcement activity. Drug-trafficking organizations and terrorist organizations share many characteristics and many of the same criminal structures for support. If we effectively combat one, it helps battle the other.

To conclude, Mr. Chairman, an effective campaign against these combined threats may indeed make the world safer and more secure. By according recognition and policy focus to the combined threat of drug trafficking and terrorist, we may be better able to devise cohesive strategies to deal with these threats in an effective and holistic manner.

Mr. Chairman, this concludes my formal remarks. I welcome your questions and comments, and there are also a number of concerns that I would be happy to share with you during the question and answer period.

[The prepared statement of Mr. Perl appears as a submission for the record.]

Senator KYL. Thank you very much. I just mentioned to Senator Biden that you raise a very interesting perspective on this. The more we are able to separate the terrorists from states, from nations, the more difficult it is for them to finance their operations. They then have to turn to things like drug trafficking, at which point we now have two different ways of going after them from a law enforcement perspective. They become more vulnerable to our enforcement, which I think is an excellent point. I hadn't quite thought about it that way in the past.

Dr. Lee.

**STATEMENT OF RENSSELAER W. LEE, PRESIDENT, GLOBAL
ADVISORY SERVICES, MCLEAN, VIRGINIA**

Mr. LEE. Thank you, Senator Kyl, Senator Biden.

In recent years, we have seen a recognizable convergence between the lawless swamps of drug trafficking and international terrorism. These areas of overlap or intersection between these worlds are summed up in the concept of narco-terrorism.

This concept has the positive policy connotation that fighting drugs will significantly cut into the revenues of terrorist groups, cripple their operations, and help stabilize conflict-torn states and regions. Yet, we must also recognize the limitations of counter-narcotics as a tool for combatting terrorism.

Experience and logic suggests that drug-dealing and terrorism are really different phenomena requiring different solutions. I have made a number of points to this effect in my prepared testimony which I would like to have submitted for the record and I will try to summarize these points here.

Motives, for example, are a distinguishing characteristic. Professional drug criminals are typically concerned with amassing vast wealth, concealing the fruits of their crimes, and avoiding prosecution. Terrorists' aims are preeminently non-financial, gaining political influence or legitimacy, overthrowing a government, or fulfilling a radical religious vision.

Sometimes, the interests of terrorists and criminals coincide, but sometimes they are very much at odds. On occasion, governments

have sought, wisely or unwisely, to leverage these points of conflict to advance the fight against domestic or international terrorist threats. We have seen some overtones of this, unfortunately, in Colombia and Afghanistan.

Drugs figure more prominently—this is the second point—drugs figure more prominently in the fundraising strategies of some terrorist groups than others. I think if we could construct a typology of such groups, we might see that certain actors, like the Revolutionary Armed Forces of Colombia, the FARC, and Peru's resurgent Shining Path guerrillas, earn fairly significant revenues from taxing or selling illicit drugs.

But the dangerous Middle Eastern terrorists like Al-Qaeda, Hizballah and Hamas traditionally have relied largely on donations from wealthy Arab contributors, sometimes funneled through Islamic charities, and in the case of Hamas and Hizballah on infusions of money and weapons from sympathetic states. And this means that whatever we can accomplish on the international drug front, however valuable, may not do much to constrain the activities of certain lethal terrorist entities.

Even if we could cut substantially the narcotics revenues of a group such as the FARC, its response might be simply to expand into new criminal lines or to extract more revenues from tried-and-true ones such as extortion, kidnapping and hijacking, inflicting even more terrorism and misery on the Colombian population.

A broader lesson here, I think, is that efforts to disrupt terror financing, while useful, are not an adequate substitute for targeting the terrorist organizations, per se, their core leadership, their ideology, their recruitment stratagems.

The imperatives of fighting drugs are not the same as the imperatives of fighting terror—and this is my last major point—and might even conflict with them at some points. For example, in Afghanistan, the world's largest opium-producing nation, drug control has tended to take a back seat to the counter-agenda, which has included overthrowing the Taliban, rooting out pockets of Al-Qaeda and Taliban resistance, and creating, or you might say cobbling together some kind of a viable anti-Taliban governing coalition.

Emphasis has been on consensus-building, and alliances have been struck and compromises formed with some possibly unsavory political forces that have a reputed history of involvement with the drug trade. And certainly the U.S. military—at least this is my impression—has not seen as its principal mission destroying drug crops, opium storehouses, or heroin labs, or going after heroin kingpins and their political sponsors.

In Colombia, where counter-narcotics ranks as a higher priority, some of the drug control measures that we are funding such as the aerial spraying of illicit crops are controversial. Some people believe that they are intrinsically anti-popular and that these measures complicate, in fact, the task of winning rural adherence in the struggle against insurgency. Possibly, our drug control strategies could be fine-tuned to be a little bit more people-friendly, to focus more on hearts and minds approaches toward inhabitants of contested rural areas in Colombia.

A final point. It is frequently argued, and I think I heard it argued today, that narcotics trafficking itself is a form of terrorism

directly against the United States of America. Indeed, drugs impose a huge cost upon our society. I think the figure used by the drug czar is something upwards of \$160 billion a year.

But let's not forget that the intent of the perpetrators is usually to make a profit and not to inflict necessarily harm on U.S. nationals or institutions. Also, unlike the victims of the 9/11 attacks and other terror atrocities around the world, the victimized drug consumers have a choice, which is not to buy and use illicit substances.

Thank you very much.

[The prepared statement of Mr. Lee appears as a submission for the record.]

Senator KYL. Thank you, Dr. Lee.

Now, Larry C. Johnson.

**STATEMENT OF LARRY C. JOHNSON, MANAGING DIRECTOR,
BERG ASSOCIATES, WASHINGTON, D.C.**

Mr. JOHNSON. I appreciate the chance to appear before this Committee, and ask that my written statement be included in the record.

By way of background, I come at this really from three different angles. I started off in the Central Intelligence Agency. In part, I guess you can blame Senator Hatch for that; he wrote one of the letters of recommendation. I then moved to the State Department and worked in the Office of Counter-Terrorism, and then since leaving that office I have been involved with scripting exercises for the special operations community in the field of counter-terrorism. At my current company, though, we are involved with money laundering investigations and do work for several Department of Justice entities. We handle a lot of the financial analysis.

The bottom line with the link between terrorism and narcotics is it is all about the money and there is no other aspect to it. It is about the money. And as in terrorism, I believe if you follow the money you can break its back. I want to show you a couple of charts and graphs to illustrate this.

Prior to 1991, we did not see significant amounts of terrorist funding coming from narcotics activity. It was the conventional State sponsorship. But if you look at 1991, and particularly the red, that shows Marxist-Leninist groups.

When the Soviet Union collapsed—and I am not one that subscribes to the fact that the Soviets funded all terrorism, but the Soviets were a significant source of funding for other regimes that were sponsors, particularly Libya, Iraq and Cuba, in particular.

When the Soviet Union collapsed, look at what happens to the Marxist-Leninist groups; within 3 to 4 years, it is in half. That speaks to the point that, without money, these terrorist groups cannot operate and they are confronted with a choice of either coming up with an alternative source or going out of business.

What happened in the case of particularly the FARC and the ELN and the Kurdish Workers Party in Turkey—the PKK in the early 1990's was the most active terrorist group in the world, more active actually than the FARC and the ELN. What happened is those three groups then moved into narcotics trafficking.

Now, one of the points that Senator Biden made earlier—and I have a personal anecdote to illustrate it. I sat in on a meeting out at the counter-narcotics center after Ambassador Busby had left Colombia. I had worked for him when he was the coordinator for counter-terrorism. We met with one of the senior analysts who had actually been a former branch-mate of mine when I was at the CIA, and there was a heated debate over were the FARC and the ELN involved with narcotics trafficking.

The intelligence community's position was it was not occurring, it was nonsense. Ambassador Busby was about ready to pull out his hair, saying what are you talking about; of course, it is true. At that time, I didn't understand the disconnect. It was only when my two partners—one was the former chief of the International Office for DEA, Bobby Nievas, and John Moynihan—that we joined up that I came to understand what had happened.

The DEA-6s, those law enforcement intelligence reports that are used internally for DEA and are never generated as intelligence reports, detailed names, events, dates, places, and it was clear the connection. The problem was the intelligence community wasn't seeing it then and still isn't seeing it today, so they live in the dark. Unfortunately, the rule in the intelligence community is if it is not in black and white and on paper, it doesn't exist.

Let me take you, then, to—

Senator BIDEN. Mr. Johnson, let me ask a question.

Mr. JOHNSON. Yes, sir.

Senator BIDEN. You are saying today, if, in fact, the DEA in Afghanistan had clear, direct evidence of a connection between the poppy being grown in the Pashtun area, the profits going directly to Al-Qaeda, that would not be on the CIA's radar screen, other than if they got it themselves?

Mr. JOHNSON. Yes, sir, that is correct. That is my understanding. I have learned this: DEA is our best intelligence organization in the U.S. Government because they have better human sources. The problem is they are their own worst enemy; they don't realize what they have. I think the Committee may be aware of some other technical things that were developed at DEA—it took the FBI 4 years to come around to use them—that have been integral in the battle against terrorism.

The next chart illustrates the activities of international terrorism, and I think it is important that we put the facts on the table of what is going on. Last year, in 2002, India and Colombia accounted for over 60 percent of the international terrorist attacks. In fact, India alone accounted for one out of every three international terrorist attacks. Yet, when we talk about terrorism, India doesn't even appear; we ignore it.

Senator BIDEN. When you say attacks, you mean they were attacked?

Mr. JOHNSON. Yes, they were attacked.

Senator BIDEN. In their country?

Mr. JOHNSON. Yes, attacks that took place in their country, in the Kashmir region, and the groups carrying out these attacks were training in Afghanistan in the Al-Qaeda camps. These groups have received direct funding and support from renegade elements of the Pakistani ISI, the intelligence service. And at least some ele-

ments in Pakistan have allowed those groups to continue, pass through Pakistan and operate in the Kashmir region.

And not only the attacks, but if you look at the deaths last year and if you ask the average American where did most of the casualties occur in terrorism, they would say, well, it was Israel. Wrong. More people died from terrorist attacks in India than in Israel, and almost as many were wounded in India and in Israel.

Now, you say, well, what is the relevance of this? The relevance of this is highlighted and you see the two reds, India and Pakistan. Now, let's look at the INCSR. Where are the areas of greatest either heroin production or opium production or cocaine production?

India doesn't appear, but bordering it on either side we see Burma and Afghanistan, and then Colombia shows up as the primary producer of cocaine. This is not coincidence. The fact that you have the drug trafficking activities both from production and distribution in the same areas of the world where these groups that either Marxist-Leninist or Islamic is no coincidence. And that goes to the heart of your point that we need to get after this.

Let me wrap up with just one thing on the money laundering front and bring it down in terms of a case that we are working on in support of the Department of Justice. There is a movement of money, checks written on U.S. banks that are coming out of the United States, and this goes directly to a group that has links to Al-Qaeda and it is an active case right now.

Those checks come out of the United States, they go into a country over in the Middle East area, to leave it vague enough for now. Those checks are then deposited in a foreign bank. Those checks then—

Senator BIDEN. Start again, please.

Mr. JOHNSON. Okay. Checks in the United States written on a U.S. bank, individual checks, and the way we came across this is we found a bulk transaction of \$18,000, roughly, and when we broke it out, the average check amount was something like \$21. And you are thinking who is writing a \$21 check and sending it over to the Middle East and Europe?

What was happening was they write the checks here. Those checks would be taken overseas and they would be deposited in a foreign bank. The foreign bank then would credit an account, but would literally bundle the checks together and send them back, what is called a cash letter agreement.

When those checks arrive in the United States at the correspondent bank, the bank takes them, stamps them, gets them deposited, and it is back in the system. They avoid the reporting requirements that you would normally see with wire transfers.

Senator BIDEN. Because they are coming back?

Mr. JOHNSON. Yes, yes. You know, these folks are very creative and entrepreneurial. I will just close with that and then we will entertain any questions.

[The prepared statement of Mr. Johnson appears as a submission for the record.]

Senator KYL. Thank you very much.

We have been joined by Senator Feinstein. Senator Biden, would it be all right if I turned to Senator Feinstein first?

Senator BIDEN. Yes.

Senator KYL. Let me just say that in about two minutes I am going to have to leave, but I am happy to turn the gavel over to Senator Biden and for he and Senator Feinstein to close the hearing. I am sorry that I will have to leave at that time.

Senator Feinstein.

Senator FEINSTEIN. Thanks very much, Senator Kyl.

If I understand this correctly—and I am sorry I missed the first panel—59 percent of the world's heroin is produced in Afghanistan. None up to this point has been eradicated, and I guess what I want my colleagues to know is, in briefings, we have been shown actual places where this poppy has been stockpiled. And I have asked questions and I have been assured that the military was going to destroy those stockpiles.

Now, if what has been heard today is correct, it indicates that I wasn't told the truth and I am very concerned about that. It seems to me if we can't destroy stockpiles and fields in countries we occupy, how is there ever a chance to approach this problem on the supply side at all?

I would be curious if any of the panelists have any comments on this because I find it beyond surprising, really shocking. So much has been made by Government spots on how narcotics is connected to terrorism. We are in a global war on terror. We occupy a country which is a principal producer of hard narcotics and yet we have done nothing to stop that production.

Mr. PERL. Senator, I would defer to Dr. Lee on that. He has written what I would consider to be the authoritative study on the drug trade in Afghanistan.

Mr. LEE. Thank you very much. That is very kind of you, Raphael.

I think that there has been a tendency on the part of our Government and the administration to try to distinguish short-term and long-term objectives. Today, Afghanistan is demonstrably the world's largest opium producer, producing last year—about 75 percent of the world supply of opium comes from Afghanistan. I think there is going to be another record harvest this year.

The problem is that we are still fighting a war against terrorism in Afghanistan, and in order to fight this war against terrorism—and I think the thinking goes both to some extent in Washington and in Kabul—we have to build alliances. To build these alliances, unfortunately we have had to make some arrangements and compromises with people that frankly may have some history of involvement with the drug trade and may be even possibly currently protecting the drug trade.

This is a tragic situation, and it is a tragic situation because even given these consensus-building imperatives in the fight against terrorism, it is inconceivable that Afghanistan can ever develop as a nation state without getting a handle on this opium problem.

On the other hand, you can see that you are talking about 75 percent of the world's opium, you know, and much of the rural population and much of the Afghan economy tied up in this business. This has to be done in a very careful manner.

Senator FEINSTEIN. Well, if I might just have a little bit of a discourse with you on this, if we don't do it now, it is never going to

be done. We know the Taliban are going to try to come back. We know that this is a prime source of funding for them. If we don't make some other arrangements with these warlords, even if it is to pay them a stipend not to produce while you cement a more permanent form of government and security system, I think it is all lost.

You know, I think it is real hypocrisy. I don't know how we can go in there and talk about quelling the supply and be in control and do nothing to deter what you said this year will be a bumper crop. I think it is shameful.

Mr. LEE. Well, I think it is shameful, but I think that it is an extremely difficult situation. We need, for example, to find ways of supporting these farmers whose opium we must necessarily eradicate. We don't have really much of any kind of a program in Afghanistan; small programs, yes, but it is going to have to be a very large-scale, very expensive effort. And above all, we have to make a commitment to that country; we have to make a commitment to the political and economic reconstruction. Our attention has been diverted elsewhere, in Iraq and other places.

Senator FEINSTEIN. There are tens of millions of dollars being spent in Afghanistan in all kinds of different ways. It seems to me that if you have to give somebody, if you will pardon the expression, a stipend not to produce to be able to support their families for a given period of time and have that arrangement, that is money well spent, as opposed to allowing them to produce it so that you have a kilo, which is \$300, which becomes \$100,000 by the time it comes on the market. This money goes back to fund others in the community that would do us harm.

So I am happy to have heard this because I am going to do something about it in the Intelligence Committee, because we have been given, I think, information that is contrary to what I have heard here this morning.

Thanks, Senator Biden.

Mr. PERL. Senator, you raise a very interesting point and it relates to the whole issue of when you have a merger between drug-trafficking groups and terrorist groups where one has political ideology and one has financial profit as the motivation—when you have the overlap, it becomes increasingly difficult to find political solutions as the two groups merge because the drug trade becomes more and more entrenched.

So with many groups, even if we could come to a political solution with many groups that are today terrorist groups, because of their involvement in the drug trade and because there is very little incentive for them to end their terrorist activities because it facilitates the drug trade to which they become addicted to, it no longer becomes a political issue.

Mr. LEE. Senator, just one more point. We have to remember also that the Taliban in its last years eradicated opium, and in so doing it created many enemies within Afghanistan among people who were very much involved in opium and heroin trafficking.

So we had to make an initial choice. Getting rid of the Taliban was the major objective and to the extent that that in a way is still going on, we find ourselves saddled, unfortunately, with—

Senator FEINSTEIN. You are saying we chose drugs.

Mr. LEE. Well, I didn't choose drugs.

Senator FEINSTEIN. No, you didn't say that, but that is clearly the implication.

Mr. LEE. Yes. Well, I think that not enough has been done on the drug front and I think not enough attention has been devoted to the entire Afghanistan political and economic reconstruction issue.

Senator FEINSTEIN. Thank you.

Senator BIDEN [PRESIDING]. Thank you, Senator. I share your frustration. You fortunately didn't have to hear what I had to say about this earlier. I want to reiterate two points.

One is all that is happening in Afghanistan is operating under the umbrella of an absolute failed policy politically, economically, strategically, in every way. We are about to fundamentally lose Afghanistan in a way that will not be able to be retrieved because as my visits there have indicated, next time when the swamp fills up in 2, 3, 4, 5 years, we will not have the Northern Alliance to march with us next time. We will not have the Alliance that did most of the fighting next time.

Let's get something straight here, because I agree with Mr. Perl's comments. Dr. Lee, you have done the definitive work here. We made a judgment. The President announced in a detail a policy toward Afghanistan within 3 months after, quote, "our victory." He called for a Marshall Plan. We had a group of donor nations. No Senator or Congressman used that term. The President of the United States of America said he was initiating a Marshall Plan.

He sent his Secretary of State to Tokyo to meet with the donor nations. There were pledges made far less than we anticipated, but the cost in a report that I wrote then was a minimum of \$19 billion was going to be the cost, a minimum number. Everybody signed on to that number as a minimum cost for political, economic and other reconstruction to take place in that country.

There was a great debate that took place between Cheney and Rumsfeld on one side and the Secretary of State on the other, and the issue was again a report we wrote in the Foreign Relations Committee calling for the expansion of ISAF. Messrs. Rumsfeld and Cheney won that fight. The State Department vehemently opposed the position taken by the Defense Department that we should not expand ISAF. I personally met with the British one-star running the operation for ISAF. In fact, everyone told us that if we did not expand, Europe was not going to do that; it would not be involved, they could not.

There was a fundamental shift in policy that took place about 2 months later, when it was clear that we decided that stability would be gained through the warlords. That is how it would occur. There would be no expansion of ISAF. And guess what? With that, you had the donor nations drop off, including us, in terms of the funding. There is no Marshall Plan. There is not even a mini-plan going on in Afghanistan right now.

And now we are given this bizarre reasoning coming from the President that the reason why we can't spend money more rapidly is we can't get out in the field because there is no security. That is the rationale now; there is no security. so we come up with this stupid acronym, whatever the heck it is called, these forces that

are going to go out, provincial reconstruction terms. Mr. Karzai was chastened before our Committee by the administration to say that is all he needed, when he know he needed a lot more.

So the bottom line is why is anybody surprised? There is no significant money internationally for reconstruction. There is no security beyond Kabul. We now have American forces guarding Mr. Karzai. We are his bodyguards now. We can't even put together and train for them, which was the plan of this Afghan army of 70,000, his own bodyguards. This is a disaster.

Anyone who thinks that one of the logical outcomes of this is not going to be a significant increase in drug production, why wouldn't there be? Why would there not be? In fairness, I think, Dr. Lee, you are correct. Once you decide you are not going to expand through NATO and the United States another 100,000 forces or 50,000 forces, taking care to secure the rest of the country, then you have to make a judgment.

You make a trade, and the trade is trade in drugs. We want to focus on Al-Qaeda and it may not be as bad a deal as it appears if one question were able to be answered, and this is my question, and that is if there is no real nexus between the profits from the drug trade and the financing of Al-Qaeda and their operations worldwide, then, okay, not as big a downside as it could be.

But if there is that nexus that it is an alternative funding source of consequence for Al-Qaeda, then the Faustian bargain we made with the warlords has produced the exact opposite of what we intended. What was the deal? What did the administration say? Why did they make the bargain with the warlords? To secure the region, because guess what? I keep picking Ismael Kahn, but he is one of the most powerful.

Ismael Kahn doesn't like Al-Qaeda. Therefore, that is okay. If he doesn't like Al-Qaeda, we don't care about western Afghanistan. That is the truth; the administration doesn't give a damn about it. We don't care about it. So as long as Al-Qaeda is not able to play in that part of Afghanistan, what difference does it make?

But the irony will be if the drug flows which come out of western Afghanistan and southern Afghanistan with the Pashtun are ending up in the pockets of Al-Qaeda, funding their ability to purchase a little ball of enriched plutonium from Korea as they begin their plutonium factory, then that Faustian bargain is going to take us all to hell.

I think it is a travesty, an absolute travesty, and to fly-speck it as to whether or not we can now provide incentives or not provide incentives and, with all due respect, even take out the warehouses—I sat there in Afghanistan and there was talk about the plan that we were going to provide alternatives for these farmers and there was an urgency. Everybody knew if we did not get them money right away so they could eat and live, they would be growing that pretty little poppy. There is no other choice; there is nothing else.

So I apologize for my frustration, but, Doctor, your reports are important. The one thing I have got to know for me personally, and you may be able to answer it, is how direct is the nexus. Where is the poppy being grown, the bulk of it? My understanding is it

is nationwide, but the bulk of it is in the control of the Pashtun. I may be wrong. I don't know.

Who controls most of it—that is my first question—the actual growing of the poppy, what parts of the country, and on whose watch is it happening?

Mr. LEE. Well, let me try to answer that question and it is very difficult because I never got a sense of who actually was in control in what areas. But my sense is that most of the poppy production in Afghanistan is grown in areas under the control of political groups and forces, warlords who are more or less affiliated with what passes for a central government in Kabul.

There is not a situation that I could see that you describe in which the remnants of Al-Qaeda are systematically extracting revenues from parts of the opium trade somewhere in the country. In fact, my impression has always been that even under the Taliban, the Taliban was successful in taxing the opium crop, but they were far less successful in actually being able to extract money from these clannish tribal trafficking groups that have quite a lot of power and weapons to back up this power.

Senator BIDEN. I agree that is factually correct. The question is has that changed now, because that was not narco-terror trafficking then. Because it was not the case, you had a lot of money coming out of Saudi Arabia and other places funding the camps, funding the rest of it, and there was a counterintuitive instinct.

Mr. LEE. That is absolutely correct that traditionally Al-Qaeda has gotten its money from donations, primarily. Has it changed? Maybe, because some of our efforts to cut the flow of terrorist financing, centralized financing arrangements of Al-Qaeda, might have pushed the organization more into a state of dependence on the drug trade. But I can't tell you for sure whether that is true or not.

Senator BIDEN. Neither can I.

I will yield to you, Mr. Johnson, in just a second.

The whole purpose of this hearing, as I understood it, is not merely to delineate what we know in the International Drug Caucus and in the Crime Subcommittee of the Judiciary Committee, where we spend all our time talking about the drug problem.

This was about drug-trafficking organizations which, as one of you said, are all about finances, money, big houses, fast boats, and lifestyles, merging with ideological organizations that use terror as the method to impose their ideology. That is the \$64 question here. Ironically, we haven't gotten anything that has spoken to that specifically yet.

We know it is occurring with the FARC, we know it is occurring with the AUC, the paramilitaries. We know it is occurring with the ELN. They have become self-financing mechanisms. None of those three organizations have chosen Americans, other than through kidnapping, as targets. Their ideology does not call for the destruction of the Western Culture and/or the United States of America.

So our focus is supposed to be, I hope, on that one organization and its ancillary organizations that have as their objective killing Americans wherever they find them, with as big a payoff as they can get. And the question is are those organizations now finding their revenue stream in having partnered with, or to use the

phrase you used, Mr. Perl, merged with traditional drug-trafficking organizations, whether they be tribal in nature or ideological in nature.

I have not seen a shred of evidence yet, although I don't doubt it—I mean, intuitively it would seem that it is happening—whether or not the funding, these billions of dollars that are made, or the hundreds of millions that are made, is going into the pockets of terrorist organizations now who have as their number one enemy the United States of America. That is the question I am looking for an answer to. That is the question I think has to be answered because it radically changes the degree to which I focus my attention on the issue.

Does anybody want to comment on that?

Mr. JOHNSON. Well, I would encourage you not to divert your attention because I think we were sitting in the second row as sort of the “amen” corner when you were speaking earlier.

There are elements in which money that will originate out of drug trafficking, not necessarily drug production but drug sales, is working its way back through the system. In terms of Al-Qaeda's overall reliance on the financing, I think you make the correct distinction that unlike the Marxist groups in Colombia where they don't have an institutional support, an institutional charitable giving system that backs them up, they also have not gotten into the same kinds of front businesses.

We have seen with Al-Qaeda that they will send operatives into areas and actually set them up in furniture manufacturing and fishing. We have also seen the Al-Qaeda organization move into areas such as commodities. They deal with contraband and counterfeit merchandise that passes through Dubai and then on up into areas of Iraq and Iran and Afghanistan.

So they are not relying on one source, but I think you put your finger on it that by recreating the infrastructure in Afghanistan where opium production can proceed almost unchecked, where the links still exist between those opium-producing organizations and Russian organized crime, which is another vehicle for moving it, it creates the potential that if we have continued success in shutting down these other avenues, then they have something to turn to that can create significant problems.

That is why the one message I have that I heard last week in Kansas City—I was an organized crime drug enforcement task force and an FBI guy came up to me and he said this insane focus on terrorism is ridiculous, he said, because we are getting people telling us that, oh, you know, drugs is old news and terrorism is the hot item.

But when you sit down and look at the actual loss of life in the United States, we lose far more people to drug use than we do to terrorism. So we shouldn't make it an either/or because the tools to combat one are as effective in combatting the other and it is not that you have to do necessarily anything different.

Senator BIDEN. Yes, Mr. Perl.

Mr. PERL. My analysis reveals that I do not see a trend of the organizations merging. I see a trend of the activities merging and this concerns me because I know of terrorist organizations—

Senator BIDEN. Tell us what you mean by the activities merging.

Mr. PERL. Terrorist groups engage in drug-trafficking activity, and the concern here is that I do know of terrorist groups that have negotiated and decided that they will cease to commit terrorist acts and be involved in terrorism. But I know of no narcotics organization that has agreed to stop trafficking in drugs voluntarily.

This raises the possibility that we see a phenomenon here where terrorism will continue to perpetuate itself at a greater rate in the future than in the past because of the involvement of terrorist organizations in drug-trafficking activity.

Senator BIDEN. I couldn't agree with you more, and I hope several of you know me well enough or at least know my predisposition about this drug issue that I don't have to spend a lot of time prefacing my remarks here and explaining the context.

There is no doubt in my mind—and I will not keep you beyond this—that you are, as a matter of principle, correct that there are some terrorist organizations or ideologically constructed organizations who have used terror as an instrument for their political ends that have, in fact, gone out of business. They have been politically negotiated out of business. I know of no drug organization that has gone out of business other than being crushed.

Your generic point that the merger of the two—even once they abandon their ideological objective, they are still in the business of liking the fast boats and the big cars. They are not going to go out business. I understand that.

I have a myopic focus at the moment on Al-Qaeda, not at the expense, Larry, of focusing on domestic—I am the guy calling for significantly more domestic investment on traditional law enforcement efforts relating to drugs, organized crime and the like.

By the way, the guy who is going to run up against the terrorist on the streets of Washington, D.C., is going to be a D.C. cop. It is not going to be a special forces guy with night vision goggles on.

Mr. JOHNSON. Right.

Senator BIDEN. And so I have no illusions about it and so I want to make it clear that I think we have misallocated the money we are spending, but I also think we have failed to prioritize.

You said something, Dr. Lee, and you have been fastidious, and I respect it, in not getting into the politics of any of this. But you said something, and I don't know whether it slipped or it was intended, that our attention has been diverted to Iraq. Our attention has also been diverted, in part, away from Al-Qaeda. No one has forgotten it; it has not exclusively moved.

But the point is the idea of the terrorist groups that are likely to cause the most economic as well as physical damage to the United States of America and its citizens do not have any possibility, in my view, any more than a drug-trafficking organization, to negotiate themselves out of existence. The political end of Al-Qaeda is totally incompatible with our ability to continue as the nation state we are with our Western democracy. So my concern here is if that marriage took place, that merger were to take place—and I don't know that it has—then it seems to me that our focus on the drug effort should prioritize that aspect of the drug trade.

When I wrote the drug czar law, the purpose was do we focus on methamphetamine this year more than we focus on cocaine, do we focus more on cocaine than we do on heroin. We can't do it all at once. We can't spend equal amounts of resources on it all, and it varies. These are entrepreneurial folks; they decide.

When I wrote a report 5 years ago saying the biggest producer of heroin was soon going to be Colombia, everybody said what are you talking about? All you have got to do is think. They are looking for product, product. It is no different than selling soap. They are looking for product. And what is the product they diversified to? Heroin. There was no heroin, Larry, coming out of the Andean region.

I think we need some harder data in order to make priority judgments about the extent to which there is a fundamentalist Islamic/terrorist nexus with drug trafficking. That is the key because if that is to be established and if we are unwilling in this or future administrations to spend the resources necessary to cover all the bases, then guys like me are left in a position of deciding how to best spend the limited resources. I know you understand it.

You know, I used to have a friend named Bob Gold. God love him, he passed away. Bob was a street-smart guy. Sometimes, though, because he didn't know a specific thing, I would say, Bob, do you understand? And he would look at me and he would say, Joe, I not only understand, I overstand. I am sure you overstand the point I am making here. I hope you think, whether I am right or wrong, it is a legitimate point that we able to prioritize our funding.

I will conclude, and I will give each of you an opportunity to make a closing statement, by saying this. I really think, Larry, we are making a serious mistake to think that we can take 567 FBI agents in violent crime task forces, FBI agents who work coordinated with DEA, move them out of that business as if it separable into counter-terrorism, not increase their total numbers at the FBI, have a 1-percent increase in DEA's budget, reduce local law enforcement total Federal funding by over 40 percent, and say that because we are going to spend \$43 billion on homeland defense we are actually increasing our security. I don't get that, I do not get that.

Is that to say the \$43 billion is not being wisely spent? No. It is to say that spending that \$43 billion, if we ever get that far over this period of time, and eliminating or shifting these other priorities is counterproductive.

I think there is much too narrow a definition of national security being engaged in here, and I think we are leaving a lot of our friends, the guys you have worked with before, whether it is at the CIA, whether it is at the DEA, whether it is at the FBI, in a very tenuous position.

And I want to tell you you are the only one who said it, and you are a former CIA guy and you know my record with the CIA.

Mr. JOHNSON. Sure.

Senator BIDEN. The DEA on this issue is by far and away the best resource asset we have.

Mr. JOHNSON. Right.

Senator BIDEN. It is almost like we are compartmentalizing this again.

Mr. JOHNSON. And we still don't use it.

Senator BIDEN. And we still don't use it.

I would invite each of you—you have been so kind to spend this long—to make any comment you would make, if you have any, on any aspect of what you have testified to or what I have said or anyone else has said because your insights at this point are needed.

Mr. Perl, do you have anything you would like to say?

Mr. PERL. I have two thoughts. One thought relates to the issue of prioritization that you have talked about here in the hearing today and emphasized. One thing that struck me sitting in the audience when I looked at the first panel was that we had four people from four different organizations talking about the same issue, but they had different priorities.

That, in my mind, raises the issue that we do have a national strategy for combatting terrorism that came out in February of this year and we have a national drug control strategy. But if indeed these two problems are becoming increasingly intertwined, perhaps we need an integrated strategy or sub-strategy as to how to approach them more effectively, to get all these different organizations better reading from the same sheet of music.

Very frequently when strategies are devised, they are devised by people within the administration, but from different agencies, with different interests and institutional goals to pursue. So I would offer as a suggestion to consider the option of having an independent organization, something like the National Research Council, look at how to deal with this issue in an effective manner, how to prioritize the resources, and what a strategy might look at. That is one issue.

Senator BIDEN. Good suggestion. Thank you.

Dr. Lee.

Mr. LEE. Well, I certainly share your concern about the lack of adequate information on the connections between Islamic terrorism and drug-dealing. I think there should be an intelligence priority. I think that we need to have more intelligence operatives, DEA people out in the field collecting this information. We need to have more information-sharing between DEA and the CIA to build this picture and I hope that this will be done.

Senator BIDEN. Thank you.

Mr. JOHNSON. I am in violent agreement with you and I will just leave it at that.

Senator BIDEN. Well, one of the things that is coming out of this for me—and because we didn't have the answer to the question of the nexus, please do not think that I don't understand the value of the testimony across the board we have gotten today. It has been very valuable.

What it has focused for me, though, is, more than I had focused on it before coming into this hearing is I am going to ask my staff, and hopefully with the concurrence of the Chairman—maybe he will join me or I will join him—for us to be able to draft very concise, precise questions about the status of the analysis within the administration, wherever it may lay, as to this nexus between fundamental Islam and narco-trafficking, because that is the question

we have to get answered first before we can make any judgments, at least in my view, before we can adequately prioritize.

A woman who has been deeply involved in this has been Senator Feinstein. She rightly points out that she is dismayed by the failure of the military to destroy stockpiled opium where they know it exists. That in and of itself is worthwhile because that opium goes out to the world and pollutes the world and kills, as you said, Larry, more people than an airplane crashing into the Trade Towers, which was horrible. But that does not answer the question. That all by itself is a worthwhile thing to do.

My criticism of Afghanistan and our policy has been consistent, and maybe I have been consistently wrong, but I don't think so because I have been trying to work inside the administration and do it quietly. Now, I am trying to scream and make a mess of it so hopefully something happens.

But the truth of the matter is none of that will give me the answer, were I making those decisions, on how to prioritize my assets to deal with what is the number one, overriding, overarching short-term concern for the American people, and that is fundamental Islamic organizations who have us as a target.

As bad as the FARC is, as bad as even Hamas is, by the way, and Hizballah—they are the first team—so far they have not been taking flight lessons to figure out how to get to the Sears building. I have no illusions about how, quote, “evil” their intent is, but I want to concentrate on the guy coming at me now. I want to concentrate on the guy that has me in his cross-hairs now. We know of at least one outfit that has us in its cross-hairs.

So I hope our staffs can work together. It is presumptuous of me to do this. I am getting back into a bad habit of acting like I am the Chairman or Ranking Member, but thank God I am not. But maybe we can work together to come up with that.

I have a couple of questions—I will not trespass any more on your time right now, but a couple of questions in writing, and you can take your time. I mean, there is no urgency. In a week or ten days, get it back to us, but I would like to have it for the record on things we have not gone into.

I can't tell you how much I appreciate your work here and your willingness to take the time, and as corny as it sounds, your patriotism in feeling obliged as a responsibility to be engaged in this effort. I thank you all. I look forward to talking to you some more, Larry, about some of this domestic allocation.

Thank you all very much. We are adjourned.

[Whereupon, at 12:35 p.m., the Committee was adjourned.]

[Question and answer and submissions for the record follow.]

QUESTION AND ANSWER

Senator Joseph R. Biden, Jr. and Senator Orrin G. Hatch
Questions for the Record for Steve McCraw,
Assistant Director for Intelligence, Federal Bureau of Investigation
following the May 20, 2003
United States Senate Judiciary Committee Hearing
on
"Narco-Terrorism: International Drug Trafficking and Terrorism -
A Dangerous Mix"

During the hearing, the Committee heard a great deal of specific testimony about the amount of money that Colombian terrorist groups receive from the drug trade as well as evidence that Al Qaeda and Hezbollah are benefitting from drug proceeds, but none of the four Administration witnesses were able to quantify the nexus between fundamental Islamic groups, particularly Al Qaeda, and the drug trade. That raises the question of whether anyone in the Executive branch is able to quantify how much money Islamic fundamentalist groups like Al Qaeda make from drug production, drug trafficking, or taxing the production or flow of drugs. Is anyone in the Executive Branch able to quantify this connection at this time? If so, what is the extent of the link? If not, what is the status of the examination of this nexus?

Response:

The FBI has not tracked the amount of money Islamic fundamentalist groups such as Al Qaeda, Sunni extremists, Hezbollah, and Hamas have derived from drug production and trafficking, and has little corroborated information to offer. In order to quantify these sums, we must first understand more about the various ways in which these groups move funds, including banking and other traditional fund transfer systems as well as alternate remittance systems such as Hawallahs, bulk cash shipments, and couriers. The FBI is in the process of determining what assessment mechanisms will best enable us to understand and exploit these traditional and alternative funding systems, and to identify new funding systems, so that we can derive maximum investigative value.

The link between the funding of terrorist groups and the illegal drug trade is, however, supported by anecdotal evidence. For example, a recent joint FBI and DEA investigation resulted in the arrests of 16 Afghan and Pakistani subjects for involvement in a drug ring. The FBI continues to investigate the amount of money earned through that ring's activities and the ultimate recipient(s) of those funds, as well as the source of the heroin, where it was processed, and from where it was being shipped to the U.S. It appears, however, that the proceeds of that ring's drug sales were laundered through Afghan and Pakistani owned businesses.

Another FBI undercover investigation involved drug distributions in and around Peshawar, Pakistan, and resulted in the 9/20/2002 arrest of three subjects by officers of the Hong Kong Police for conspiracy to import heroin and hashish and providing material support to

terrorists (al-Qaeda) The 10/30/2002 indictments in the Southern District of California (San Diego) were based upon evidence indicating that the defendants had offered to sell to undercover FBI agents several tons of heroin and hashish. The defendants sought to purchase four "Stinger" missiles from the undercover agents by offsetting the value of the anti-aircraft missiles against the purchase price of the heroin and hashish, indicating an intention to sell the missiles to members of the Taliban or al-Qaeda in Afghanistan to shoot down American planes.

SUBMISSIONS FOR THE RECORD

Statement of
Steven W. Casteel
Assistant Administrator for Intelligence
Before the
Senate Committee on the Judiciary
May 20, 2003

***“Narco-Terrorism: International Drug Trafficking
and Terrorism – a Dangerous Mix”***

Executive Summary

Prior to September 11, 2001, the law enforcement community typically addressed drug trafficking and terrorist activities as separate issues. In the wake of the terrorist attacks in New York City, Washington, DC, and Pennsylvania, these two criminal activities are visibly intertwined. For the Drug Enforcement Administration (DEA), investigating the link between drugs and terrorism has taken on renewed importance. More importantly, it has heightened the visibility of DEA’s mission – one that was present even before September 11th.

Throughout history, a broad spectrum of the criminal element – from drug traffickers to arms smugglers to terrorists – have used their respective power and profits in order to instill the fear and corruption required to shield them from the law. Perhaps the most recognizable illustration of this linkage is the expansion of Traditional Organized Crime in the United States during the early 20th century. Whether a group is committing terrorist acts, trafficking drugs or laundering money, the one constant to remember is that they are all forms of organized crime. The links between various aspects of the criminal world are evident because those who use illicit activities to further or fund their lifestyle, cause, or fortune often interact with others involved in related illicit activities. For example, organizations that launder money for drug traffickers often utilize their existing infrastructure to launder money for arms traffickers, terrorists, etc. The link between drugs and terrorism is not a new phenomenon.

Globalization has dramatically changed the face of both legitimate and illegitimate enterprise. Criminals, by exploiting advances in technology, finance, communications, and transportation in pursuit of their illegal endeavors, have become criminal entrepreneurs. Perhaps the most alarming aspect of this “entrepreneurial” style of crime is the intricate manner in which drugs and terrorism may be intermingled. Not only is the proliferation of illegal drugs perceived as a danger, but the proceeds from the sale of drugs provides a ready source for funding for other criminal activities, including terrorism.

Chairman Hatch, Ranking Member Leahy and distinguished members of the committee, it is my distinct pleasure to appear before you in my capacity as the Assistant Administrator for Intelligence of the DEA. Before I begin, Mr. Chairman, I would like to

recognize you and the members of the committee for your outstanding support of DEA's mission and the men and women who serve it.

The DEA does not specifically target terrorists or terrorist organizations. It is DEA's mission to investigate and prosecute drug traffickers and drug trafficking organizations. However, some of the individuals and/or organizations targeted by the DEA may be involved in terrorist activities. In fact, fourteen (or 39 percent) of the State Department's current list of 36 designated foreign terrorist organizations have some degree of connection with drug activities. Due to DEA's global presence and the strong relationship with local law enforcement through the DEA Task Force Program, it is only natural, that in the course of drug investigations and intelligence collection, DEA would develop intelligence and information concerning terrorist organizations.

Defining Narco-Terrorism

According to 22 U.S.C. § 2656f(d)(2)), *terrorism* is the premeditated, politically motivated violence against noncombatant targets by sub-national groups or clandestine agents. *International terrorism* involves citizens, or territory, of more than one country. A *terrorist group* is any group practicing, or that has significant sub-groups that practice, international terrorism.

Historically, DEA has defined narco-terrorism in terms of Pablo Escobar, the classic cocaine trafficker who used terrorist tactics against noncombatants to further his political agenda and to protect his drug trade. Today, however, governments find themselves faced with classic terrorist groups that participate in, or otherwise receive funds from, drug trafficking to further their agenda. Consequently, law enforcement may seek to distinguish whether narco-terrorists are actual drug traffickers who use terrorism against civilians to advance their agenda, or principally terrorists who out of convenience or necessity, use drug money to further their cause. Our analysis suggests that the label of narco-terrorist may be equally applicable to both groups.

DEA defines a narco-terrorist organization as "an organized group that is complicit in the activities of drug trafficking in order to further, or fund, premeditated, politically motivated violence perpetrated against noncombatant targets with the intention to influence (that is, influence a government or group of people)."

The Pablo Escobar Example

One of the most infamous "narco-terrorists" was Pablo Escobar. As leader of the Medellin cocaine cartel in Colombia, he became one of the wealthiest and most feared men in the world. At the height of his success, Escobar was listed in Forbes Magazine as being among the world's wealthiest men. While on the surface, he was nothing more than a street thug who became successful by trafficking in cocaine, Escobar had political aspirations and strove to project the appearance of legitimacy, claiming his wealth was the result of real estate investments. Escobar had a penchant for violence. He wreaked havoc on Colombia while attempting to persuade the government to change its

extradition policy. Due to the numerous assassinations of politicians, presidential candidates, Supreme Court justices, police officers, and civilians, as well as a number of bombings culminating in the bombing of an Avianca commercial airliner in 1989, Escobar enraged both Colombia and the world. These actions resulted in a massive manhunt and his death in 1993. Escobar was a drug trafficker who used drug-related violence and terrorism to further his own political, personal, and financial goals. He was the classic narco-terrorist; his cause was simply himself.

South America

One does not have to go to the Middle East to find active terrorist groups – they exist right in our hemisphere. The U.S. State Department has officially designated the National Liberation Army (ELN), the Revolutionary Armed Forces of Colombia (FARC), and the United Self-Defense Groups of Colombia (AUC) as Foreign Terrorist Organizations. These organizations, all based in Colombia, were responsible for some 3,500 murders in 2002. As in years past, Colombia endured more kidnappings last year than any other country in the world, roughly 3,000. Overall, the AUC, ELN, and FARC all benefit and derive some organizational proceeds from the drug trade, as well as other illegal activities such as kidnapping, extortion, and robbery.

DEA is actively building cases on members of these groups who have been identified as engaging in drug-trafficking related activities, which are summarized below:

- March 7, 2002, FARC 16th Front Commander Tomas Molina-Caracas and several of his Colombian and Brazilian criminal associates were indicted in the District of Columbia for conspiring to manufacture and distribute cocaine with the intent and knowledge that it would be illegally imported into the United States. In June 2002, Surinamese authorities detained DEA fugitive Carlos Bolas; a Colombian national and FARC member who was named in the March 2002 indictment. Shortly thereafter, DEA agents transported Bolas from Suriname to the Washington D.C. area for arraignment in U.S. District Court. This marked the first time that the U.S. indicted and arrested a member of a terrorist organization involved in drug trafficking.
- On September 24, 2002, the U.S. Government announced an indictment charging leaders of the AUC with trafficking over seventeen tons of cocaine into the United States and Europe beginning in early 1997. Charged in the indictment are AUC leader Carlos Castaño-Gil, AUC military commander Salvatore Mancuso, and AUC member Juan Carlos Sierra-Ramirez. According to the indictment, Carlos Castaño-Gil directed cocaine production and distribution activities in AUC-controlled regions of Colombia.
- In November 2002, U.S. Attorney General John Ashcroft announced the takedown of Operation White Terror with the arrests of Fernando Blanco-Puerta, Elkin Arroyave-Ruiz, Uwe Jensen, and Carlos Ali Romero-Varela for their involvement in a multi-

million dollar cocaine-for-arms deal. Fernando Blanco-Puerta and Elkin Arroyave-Ruiz were allegedly AUC commanders. All four defendants are charged with conspiracy to distribute cocaine and conspiracy to provide material support and resources to a foreign terrorist organization. This Operation was an Organized Crime Drug Enforcement Task Force (OCDETF) investigation conducted by the Houston offices of the Federal Bureau of Investigation and DEA.

- On November 13, 2002, the U.S. Government announced that Jorge Briceño-Suarez was named in a superseding indictment for his narcotics trafficking activities. Jorge Briceño-Suarez commands the Eastern Bloc of the FARC and is a member of the FARC Secretariat. As Eastern Bloc Commander, Briceño-Suarez (direct superior of Tomas Molina-Caracas) is responsible for the activities of four FARC Mini-Blocs that operate in the vast eastern plains of Colombia.

Revolutionary Armed Forces of Colombia

The FARC, the largest of Colombia's terrorist organizations, uses its relationships with international smuggling organizations to purchase weapons and other equipment on the international black market to be used in the FARC's war against the Colombian government. In some cases, the FARC directly trades cocaine for weapons and in other instances funds weapons purchased with cash derived from cocaine sales.

The FARC are by far the most visibly violent of Colombia's terrorist organizations and have repeatedly demonstrated their willingness to utilize violence to further their agenda. The FARC intensified its terrorist offensive throughout 2002 and 2003 and steadily moved its attacks from the countryside to the cities.

- On August 7, 2002, Colombian President Alvaro Uribe was inaugurated amid a FARC mortar attack on the Presidential Palace in the heart of Bogota. One errant mortar killed 21 residents of an impoverished Bogota neighborhood.
- On February 7, 2003, a car bomb exploded at Club El Nogal, a popular social club on the north side of Bogota near many residences of U.S. Embassy personnel. Thirty-five persons were killed including several children. The investigation by Colombian authorities revealed that the FARC was responsible for this terrorist act.
- On May 5, 2003, Antioquia Governor Guillermo Gaviria and Gilberto Echeverri, former defense minister and peace adviser, were assassinated by the FARC near Urrao Municipality, Antioquia Department. The two officials were murdered along with eight non-commissioned officers and soldiers.
- On May 8, 2003, twenty-eight occupants of a Satena Airline aircraft were terrorized, but otherwise unharmed, when FARC members shot at the aircraft as it was getting ready to land on the runway in La Macarena, Meta (formerly part of the demilitarized zone).

**United Self Defense Forces of Colombia
And the National Liberation Army**

The AUC, commonly referred to as autodefensas or paramilitaries, is an umbrella organization of approximately 13 self-defense groups. The AUC is supported by economic elites (cattle ranchers, emerald miners, coffee plantation owners), drug traffickers, and local communities lacking effective government security, and claims as its primary objective the protection of sponsors from insurgent attacks. The AUC now asserts itself as a regional and national counter-insurgent force. It is adequately equipped and armed, and reportedly pays its members a monthly salary. In 2000, AUC leader Carlos Castano claimed 70 percent of the AUC's operational costs were financed with drug-related earnings, with the balance coming from sponsor donations.

AUC operations vary from assassinating suspected insurgent supporters to engaging guerrilla combat units. Colombian National Police reported the AUC conducted 804 assassinations, 203 kidnappings, and 75 massacres with 507 victims during the first 10 months of 2000. The AUC claims the victims were guerrillas or sympathizers. Combat tactics consist of conventional and guerrilla operations against main force insurgent units. AUC clashes with military and police units are increasing, although the group has traditionally avoided confrontation with government security forces. The paramilitaries have not yet taken action against US personnel.

The ELN -- like the FARC -- continues to pursue its favored terrorist methods of kidnapping and infrastructure bombing. There are currently no formal or informal peace talks between the ELN and the Colombian government. On March 5, 2003, a car bomb exploded in a shopping center in the northeastern city of Cucuta, killing seven people and injuring more than 50. Military and police sources attributed the Cucuta attack to ELN guerrillas operating in the city.

Spill-Over Into Central America

DEA reporting indicates that persons affiliated with the AUC, and to a lesser extent the FARC, are working with Mexican and Central American trafficking organizations to facilitate cocaine transshipments through the region. Consistent with these reports, a Government of Mexico official recently stated that members of the AUC and the FARC are carrying out drug-trafficking activities in Mexico. There have been numerous instances of drugs-for-weapons exchanges occurring in the region, particularly in Central America, that are exemplified by the November 2002 takedown of Operation White Terror which resulted in the dismantling of an international arms and drug trafficking network linked to the AUC. DEA continues to work with Host Nation Counterparts in Latin America to pursue and disrupt the drug trafficking activities of these vast traditional criminal networks providing financial support to the AUC and the FARC.

Panama

- July 22, 2002 – After arrests involving the seizure of 10 kilograms of heroin, intelligence revealed that additional drugs were to be located at the beach house of one of the arrested. The police returned to the beach house to find an additional 6 kilograms of heroin, 300 kilograms of cocaine, and 260 kilograms of marijuana. Also discovered were 139 AK-47s, 11 Dragonov sniper rifles, 1 Fal 7.62 rifle, 2 .45 caliber submachine guns, 247 AK-47 ammunition clips and 598 rounds of 7.62 bullets.
- November 6, 2002 – After establishing surveillance at a location where a number of seizures had recently been made, local authorities observed several men carrying large burlap bags. A fire fight occurred after the police approached the men. The police captured one suspect while several others escaped. Subsequently, six additional suspects were apprehended by means of road blocks. The abandoned bags contained 316 kilograms of cocaine, 57 packets of heroin, 410 heroin pellets, and 1,134 small cylinders containing heroin. The next day the police found a cache of AK-47 rifles and other assorted small arms and ammunition in an abandoned pick-up truck that one of the suspects had rented. This seizure like several others in Panama suggest that significant drug transaction orchestrated by Colombian paramilitary groups are often simultaneously accompanied by a significant arms shipment.

DEA intelligence indicates that due to the political and economic crisis in Venezuela, the FARC and AUC are increasingly utilizing Venezuela as a transit zone to smuggle drugs, arms, chemicals and monies to and from Colombia. The declining economy and inability by the Government of Venezuelan (GOV) to effectively control the VZ/CB border has resulted in increased drug trafficking, kidnapping and corruption within in the region as a whole. Reporting indicates that some of this activity is directly attributed to the FARC and AUC, as well as other criminal organizations based within the region.

Ecuadorian security forces have worked to reduce the smuggling of arms destined for Colombian terrorist groups and have limited travel at a key border crossing to daytime hours. Nevertheless, armed violence on the Colombian side of the border has contributed to increased lawlessness in Ecuador's northern provinces.

HAMAS & Hizballah in the Tri-Border Area

The two major terrorist organizations that exist in the Tri-Border Area of Paraguay, Argentina, and Brazil are Hizballah and the Islamic Resistance Movement known as HAMAS. The members of these organizations often assimilate into the local culture and typically become merchants in shopping centers to conceal their illegal activities. Intelligence indicates that Islamic fundamentalist terrorist cells operate out of strongholds in the Tri-Border Area of Paraguay, Brazil and Argentina. They generate significant income by controlling the sale of various types of contraband in these areas,

including drugs, liquor, cigarettes, weapons, and forged documents. Intelligence suggests that a large sum of the earnings from these illegal activities goes in support of the operatives' respective organizations in Lebanon.

Ties to Drug Trafficking in Tri-Border Area

Subsequent to the events of September 11, 2001, the DEA increased its monitoring of individuals and groups with links to terrorist organizations based in Ciudad del Este, Paraguay. Ciudad del Este is home to thousands of individuals of Arabic descent who have taken advantage of Paraguay's relaxed immigration laws and sought asylum in remote areas of the country. DEA intelligence has revealed that some of these individuals are utilizing the proceeds from cocaine trafficking to provide economic assistance to terrorist movements in the Middle East. Many of these individuals own profitable businesses (mostly contraband related) and have gained a great deal of political influence over the years. These individuals utilize corrupt officials and judges to operate freely in Ciudad del Este, Paraguay and Foz do Iguacu, Brazil.

The Sendero Luminoso ("Shining Path") in Peru

The Sendero Luminoso ("Shining Path" or SL) is a violent insurgent group operating in Peru that advocates the overthrow of the government in order to achieve their self-described form of "agrarian communism."

The political and military power and influence of the SL have decreased dramatically in recent years. The overlap of Peru's coca cultivation regions and the traditional SL strongholds suggest SL involvement in aspects of local drug trade. DEA, however, does *not* possess evidence to corroborate assertions that the SL has transcended beyond "taxing" local drug traffickers who wish to transport cocaine base through areas where the SL is active. Further, there is no DEA intelligence indicating that SL elements are involved in the cultivation, processing, or sale of drugs.

Southwest Asia

Afghanistan and the Taliban

In January of 2003, DEA officially re-opened the Kabul Country Office, which is staffed by two full-time special agents. With a presence north and south of the Afghanistan border through offices in Uzbekistan and Pakistan, the DEA continues to work closely with its counterparts to collect intelligence pertaining to clandestine laboratories, drug stockpiles, trafficking routes, and major regional drug targets.

Afghanistan is a major source country for the cultivation, processing, and trafficking of opiates, producing 59 percent of the world's supply of illicit opium in 2002. Because of the country's decimation by decades of warfare, illicit drugs had become a major source of income. Through the taxation of illicit opium production, the Taliban

were able to fund an infrastructure capable of supporting and protecting Usama bin Laden and the Al-Qaida organization. Accordingly, drugs and terrorism frequently share a common ground of geography, money, and violence.

Illicit opium production increased each year in Afghanistan during the 1990's, surpassing Burma as the world's leading producer of illicit opium in 1998. By 2000, Afghanistan produced more than 70 % of the world's supply of illicit opium, with more than 3,656 metric tons produced. This equaled a potential heroin production of 365 metric tons. An estimate conducted by INTERPOL suggested that ninety percent of the heroin consumed in Europe originates in Southwest Asia, particularly Afghanistan.

Afghanistan's neighbors in the Central Asian States may also be candidates for exploitation by traffickers. Drug trafficking groups could potentially utilize their existing smuggling networks within the region to move product to markets and precursor chemicals to the clandestine laboratories. Presently, the situation is fluid and constantly changing. Until the situation in Afghanistan stabilizes, the future of drug cultivation and production within that country or within the region itself will remain uncertain. However, the ingenuity and tenacity of drug traffickers in Southwest Asia will continue to present substantial challenges to western law enforcement.

Kurdistan Worker's Party

Abdullah Ocalan founded the Kurdistan Workers Party, commonly referred to as the PKK, while a student at Ankara University in 1974. The group developed as a revolutionary socialist organization composed primarily of Turkish Kurds, with the stated goal of establishing the independent nation of Kurdistan. The Government of Turkey has long followed a policy of forced assimilation for Kurds, and viewed the possibility of a separate Kurdish state as a threat.

In 1984, the PKK began to use violence against Turkish security forces, and the level of violence escalated to include civilians. In the early 1990s, the PKK added urban terrorism to their arsenal of violent activities. The death toll for this conflict exceeds 30,000, with the Turkish Government spending an estimated seven million dollars each year combating Kurdish separatists.

The PKK, considered a terrorist organization by most Western Governments, is represented in Kurdish immigrant communities throughout the world and is particularly prevalent in Europe. According to the U.S. Department of State, the PKK has received safe-haven and modest aid from states in region. The Government of Turkey consistently reports that the PKK, as an organization, is responsible for much of the illicit drug processing and trafficking in Turkey. Turkish press reports state that the PKK produces 60 tons of heroin per year and receives an estimated income of forty million dollars each year from drug trafficking proceeds.

According to historic DEA reporting, the PKK may receive its funding from a number of illicit means, including kidnapping and drugs. Government and press

reporting indicates that the PKK may be involved with merely taxing traffickers passing through their controlled territories. Other reports indicate that the PKK may be more directly involved with drug trafficking and possibly controlling a significant portion of the heroin market in Europe.

Russian Organized Crime

Analysis conducted by the DEA Moscow Country Office indicates that Russian Organized Crime (ROC) groups are expanding their scope of criminal operations worldwide, to include drug trafficking and money laundering activities. These groups are forming alliances with other criminal entities such as the Italian Mafia, Mexican and Colombian drug trafficking organizations, Japanese yakuza, Chinese triads, and Nigerian smuggling groups. Through global connections, ROC groups increasingly facilitate drug shipments in Latin America and Asia to the United States and Europe, and are involved in weapons-for-drugs exchanges. In addition, they have been attracted to the profitable business of heroin smuggling from Afghanistan. ROC groups are also expanding illicit operations to include "club drug" trafficking and production, and trafficking of precursor chemicals used to manufacture heroin and synthetic drugs.

Islamic Movement of Uzbekistan

The Islamic Movement of Uzbekistan (IMU) is a radical Islamic movement which has been in existence since 1996, maintaining close ties with Al-Qaida and the Taliban. It has received funding from both groups and its members have participated in Al-Qaida training camps in Afghanistan. The Russian and Uzbek governments openly state that the IMU is not only involved in Central Asian heroin traffic, but that it effectively controls it as well.

Southeast Asia

Liberation Tigers of Tamil Eelam

The Liberation Tigers of Tamil Eelam (LTTE) commonly referred to as the Tamil Tigers was founded in 1976 after splintering off of another separatist group in conflict with the Government of Sri Lanka.

The LTTE's hostility with the Sri Lankan government began in 1983. The Tigers are most notorious for their cadre of suicide bombers, the Black Tigers. Political assassinations and bombings are commonplace, however, the LTTE has refrained from targeting foreign diplomatic and commercial establishments.

Sri Lanka's preoccupation with the LTTE depletes the resources needed to adequately address the nation's drug problem. The conflict with the LTTE absorbs the attention of the country's naval forces, preventing the adequate patrol of Sri Lanka's 1,100 miles of coastline. DEA intelligence suggests the LTTE finance their insurgency

through drug trafficking. Information obtained since the mid-1980's indicates that some Tamil Tiger communities in Europe are also involved in narcotics smuggling, having historically served as drug couriers moving narcotics into Europe.

United Wa State Army

The United Wa State Army (UWSA) is the single largest heroin and methamphetamine producing organization in Southeast Asia, according to DEA and foreign law enforcement entities. While not a designated foreign terrorist organization, the UWSA cultivates, manufactures, transports and distributes massive quantities of heroin and methamphetamine from its base of operations in the northeastern Shan State of Burma to international markets including Thailand, Hong Kong, China, Australia, Canada and the United States. In the early 1990's, the UWSA signed a cease-fire agreement with the Government of Burma (Myanmar) and was given virtual autonomy over the region under their control. Essentially, the UWSA is a government within a government, primarily funded by drug trafficking activities.

In 2001, Burma was the world's leading producer of illicit opium, cultivating an estimated 865 metric tons of opium, with the potential to produce 86 metric tons of heroin. In addition, an estimated 800 million methamphetamine tablets are produced annually in Burma. The overwhelming majority of both heroin and methamphetamine refineries currently located in Burma are operated/controlled directly by the UWSA or indirectly by independent traffickers paying protection fees to the UWSA.

New People's Army, the Moro National Liberation Front And the Moro Islamic Liberation Front

The New People's Army (NPA) is the action arm of the Communist Party of the Philippines. The NPA was formed in 1969, as a Maoist group with the goal of overthrowing the government through protracted guerrilla warfare.

DEA intelligence indicates that the NPA is potentially involved in the cultivation, trafficking and distribution of marijuana to support their insurgent activities. The DEA Manila Country Office reports that the NPA is a communist insurgency group located on a broader scale throughout the Philippines, and is growing in number. This group has greater potential in assisting drug trafficking in the Philippines because of its larger numbers and diffuse distribution throughout the country. It has been confirmed that this group has previously provided physical security for trafficker marijuana fields. Equally important, past and recent intelligence reporting, as well as large multi-hundred kilogram seizures of crystal methamphetamine, demonstrate that many coastlines are significant drug transit zones.

The Moro National Liberation Front (MNLF) and the Moro Islamic Liberation Front (MILF) are Islamic separatists operating in the southern Philippines, primarily in the Mindanao region. In 1991, the splintering of the MNLF resulted in the creation of Abu Sayyaf, which will be discussed independently from these groups.

The MNLF and MILF receive funding from a number of criminal activities, including, kidnap for ransom, petty crimes, and drug trafficking. DEA's information suggests that the MNLF and the MILF are involved in drug trafficking activities to finance their terrorist activities. Primarily, the MNLF is involved in production and security for marijuana and possibly crystal methamphetamine.

Abu Sayyaf Group

The Abu Sayyaf Group (ASG) is an acknowledged terrorist group based in the Philippines, and is officially recognized by the United States Government as a designated terrorist group. In the mid 1980's, the ASG emerged as an Afghan guerrilla group and moved its operations to the Philippines in 1989, ostensibly to support violent efforts to establish a separate Islamic state in the southern Philippines. To achieve this goal, the ASG has been involved in a variety of criminal enterprises, including kidnappings, drug and arms smuggling, extortion, and virtually any other criminal activity that is profitable. The ASG kidnapping of Martin and Gracias Burnham, and the rescue mission that resulted in the death of Mr. Burnham, is a recent high profile example of ASG criminal activity. Both the ASG and the MILF are believed to have links to Al-Qaida through the Jemaah Islamiya (JI), members of which are known to have been involved in violent terrorist actions which include the recent bombing in Bali, Indonesia.

Financing of Terrorist Networks with Drug Money

The attacks carried out on our nation on September 11, 2001 graphically illustrated the need to starve the financial base of every terrorist organization and deprive them of drug revenue that is used to fund acts of terror. Narco-terrorist organizations in Colombia and other areas of the world generate millions of dollars in narcotics-related revenues to facilitate their terrorist activities. Tracking and intercepting the unlawful flow of drug money is an important tool in identifying and dismantling international drug trafficking organizations with ties to terrorism.

In order to dismantle narco-terrorist organizations, law enforcement authorities must not only arrest and prosecute the leaders of the organization, but also expose their supporting financial infrastructure and seize and forfeit assets acquired by them. The cells of terrorists are dispersed beyond the geographic boundaries of a specific country, much like international drug syndicates. Accordingly, DEA's approach to both the drug trade and the terror network must be equally global in scope.

According to ONDCP, Americans spend \$64 billion on illegal narcotics annually, most of it in cash. To avoid detection, these organizations have developed a number of money laundering systems in attempts to avoid financial transaction reporting requirements and manipulate facets of the economy unrelated to the traditional financial services industry.

Black Market

The Black Market Peso Exchange System (BMPE) is a significant money-laundering system used by Colombian narcotics traffickers. The BMPE is a trade-based money-laundering scheme that handles billions of dollars in drug money annually. It is among the primary means by which cartels convert U.S.-based drug dollars into "clean" pesos in Colombia. The BMPE has a devastating impact on Colombia's economy by fostering a contraband trade that undercuts legitimate businesses and deprives the Colombian government of hundreds of millions of dollars in tax revenue. The exact size and structure of the BMPE system cannot be determined with any degree of precision. However, based on intelligence related information, it is believed that between \$3 billion and \$6 billion is laundered annually. The BMPE process begins when a Colombian drug organization arranges the shipment of drugs to the United States. The drugs are sold in the United States in exchange for U.S. currency. This U.S. currency is then sold to a Colombian black market peso broker's agent located in the United States. Once the dollars are delivered to the agent of the Colombian peso broker in the United States, the peso broker in Colombia deposits the agreed upon equivalent in Colombian pesos into the person's account in Colombia.

DEA is currently part of a joint task force aimed at targeting the BMPE in South America. The "Financial Action Committee" task force is chaired by the Office of National Drug Control Policy. A sub-group, "Revenue Denial Sub-Working Group," has been established to create a Geographic Targeting Order (GTO) on businesses that export goods to South America and fuel the BMPE.

Hawala/Hundi System

The Hawala system is an underground, traditional, informal network that has been used for centuries by businesses and families throughout Asia. This system provides a confidential, convenient, efficient service at a low cost in areas that are not served by traditional banking facilities. The hawala or hundi system leaves no "paper trail" for investigators to follow. In the United States, hawala brokers tend to own high-volume, primarily cash businesses that cater to immigrants. In this process, an individual gives a hawala broker a sum of money and asks that the same amount be delivered to someone in another country. The broker contacts, often through the Internet and e-mail, a hawala broker in the city where the money is to be delivered, and instructs that broker to deliver the money to the recipient. Consequently, funds are exchanged without physical movement of the currency. The brokers make money by charging a fee for their services.

DEA's Efforts to Disrupt and Dismantle Financial Networks**Operation Caribe - Caribbean Division**

An Attorney General Exempted Money Laundering Operation (AGEO) consists of undercover operations which are given approval by the Attorney General to launder drug proceeds to continue a narcotics investigation. In Operation Caribe, an AGEO

targeted a Colombian Narcotics Trafficking Organization and Colombian BMPE brokers based in Colombia. The BMPE brokers were actively involved in laundering the proceeds of multi-thousand kilogram quantities of cocaine imported into the United States and Europe and the exporting of the proceeds from the sale of these controlled substances. The DEA Caribbean Division made numerous money pick-ups as an investigative tool to identify the infrastructure of this criminal organization. The investigation had 29 Title III intercepts. In total, this investigation led to numerous seizures of cash totaling \$1,043,676.36. The investigation also led to the seizures of 347 kilograms cocaine, 3.8 kilograms heroin and the arrests of 15 targets.

This investigation also provided significant contributions to Operation Wirecutter, a joint United States Customs Service and DEA money laundering operation supported by DEA's Bogota Country Office. Operation Wirecutter targeted both drug traffickers and BMPE brokers in Bogota, and resulted in the arrest of ten individuals and the seizure of approximately 400 kilograms of cocaine, 5.5 kilograms of heroin and approximately \$2,304,843. The main target along with eight other Colombian money brokers were indicted in the United States. In addition, numerous arrests were made on subjects identified through domestic pick-ups of currency.

Operation Juno – Atlanta Division

Operation Juno was an AGEO, also targeting Colombian Narcotics Trafficking Organizations and Colombian BMPE brokers based in Colombia. Operation Juno represented a new level of U.S./Colombian cooperation. This was the first time Colombian authorities had seized this volume of trafficker accounts based on information derived from a joint investigation by U.S. law enforcement agencies.

The Operation Juno indictment targeted five major traffickers and \$26 million worth of laundered drug proceeds. Operation Juno culminated with five indictments of Colombian-base BMPE brokers. The indictments charged the defendants with conspiracy to launder money, conspiracy to traffic in drugs, and multiple money laundering counts.

Besides the five named defendants above, 55 arrests were made in the United States during the course of the investigation. Civil seizure warrants were also brought against 59 domestic bank accounts worldwide. Approximately \$26 million in drug proceeds were targeted for seizure. In addition, \$10 million was seized during the investigation, and the balance was seized in 59 accounts at 34 United States banks, and at 282 accounts at 52 foreign banks.

International Role of DEA

The DEA's Office of International Operations maintains 79 offices in 58 countries. These offices support DEA domestic investigations through foreign liaison, training for host country officials, bilateral investigations and intelligence gathering. The

DEA's international presence is an invaluable asset in the pursuit of drug traffickers in all areas of the world. Foreign operations enable the DEA to share intelligence and coordinate and develop a worldwide drug strategy, in cooperation with our host countries.

The heart of DEA's international operations may lie in the Sensitive Investigative Unit (SIU), a program that began as a result of collaboration with Colombia and has since been used as a model for the formation of such units in other countries. This group of specifically trained and vetted police officers, which carry out highly sensitive investigations directly impacting upon the United States, have been directed to target the command and control centers of the world's most significant drug trafficking organizations. There are currently 29 distinct SIU's operating in nine different countries around the world (Mexico, Colombia, Ecuador Peru, Bolivia, Brazil, Pakistan, Thailand, Dominican Republic and Uzbekistan). They are organized based on their investigative responsibilities, which include high level investigations of major drug trafficking organizations, chemical investigations, and money laundering.

SIU operational success stories are common, but carry special significance because in every case, the host nation has exercised a capability that the DEA has helped them to build. While we give them the capability to address what is for them a domestic problem, it actually extends all the way to the streets of the United States. In each case, the SIU's have tackled complex multinational narcotics investigations that resulted in the disruption of trafficking organizations far from our shores.

- In FY 01 and FY 02, the SIU groups in Colombia were instrumental in the successful completion of Operation Nueva Generacion and Operation Broker. Operation Nueva Generacion resulted in the seizure of over of 9,000 kilograms of cocaine and 41 arrests. Operation Broker, a money laundering investigation conducted jointly with several DEA offices and the DEA Special Operations Division (SOD), resulted in the seizure of 34 kilograms of gold, 1067 kilograms of silver and 50 arrests.
- The Brazilian SIU conducted Operation Diamante, which resulted in the seizure of 2,295 kilograms of cocaine, 20 aircraft and over \$2.3 million in assets. The Brazilian SIU has conducted investigations that led to the arrest of Luis Fernando da Costa, one of the largest traffickers in Brazil. This investigation was concluded in December 2002.
- The SIU in Thailand completed a multi-national investigation involving the DEA and law enforcement agencies in Thailand, China and Hong Kong that culminated in April 2002 with the seizure of 354 kilograms of heroin and the arrest of 13 traffickers with ties to United Wa State Army.

Task Force Collaboration

DEA's Ad Hoc Counterterrorism Task Force

On October 2, 2002, in order to meet DEA's obligation to better coordinate terrorist information, DEA's Chief of Operations established an Ad Hoc Counterterrorism Task Force within DEA Headquarters. The Task Force is made up of personnel from the Office of Domestic Operations, the Office of International Operations, the Intelligence Division and the Office of Diversion Control.

The Ad Hoc Counterterrorism Task Force is assigned to review and categorize the investigative and general intelligence files that are identified by DEA field offices as having a nexus to terrorism or intelligence relative to terrorist activity. In addition, the Task Force compiles and regularly updates a list of the terrorist organizations that are referenced in the identified investigative and general files. DEA has established and implemented a tracking mechanism for the sharing of information and intelligence with other government agencies, and functions as the single point of contact within DEA for field elements and for external entities relative to terrorist information. The Task Force continues to ensure that DEA Headquarters and field elements share all terrorist related information with the respective agencies responsible for conducting and correlating terrorist investigations and intelligence.

Investigations and Operations

Operation White Terror

In November 2002, a joint DEA and FBI OCDETF investigation resulted in four members of the AUC being indicted for their role in drugs-for-weapons exchanges. The defendants are charged with violations of Title 21 of the United States Code and with providing material assistance to a terrorist organization. The defendants were attempting to exchange cocaine to purchase Russian-made weapons, including automatic rifles, ammunition, grenades and rocket-propelled grenades.

Operation Mountain Express III

On January 10, 2002, Phase III of Operation Mountain Express culminated with the arrest of over 100 individuals in 12 cities throughout Canada and the United States for the illegal trafficking of pseudoephedrine.

Middle Eastern criminal organizations comprised of individuals of Palestinian, Syrian, Jordanian, Israeli, and Yemeni descent play an integral part in the Mexican methamphetamine trade as suppliers of pseudoephedrine. These criminal groups are known to supply pseudoephedrine tablets to Mexican national organizations in the United States, usually through the ownership of convenience stores, wholesale grocery supply companies, and distribution outlets for medical supplies. Middle Eastern

pseudoephedrine tablet dealers can purchase a case of pseudoephedrine for between \$600 and \$800, and then sell it to methamphetamine manufacturers for between \$3,000 and \$4,000. Thus tremendous profit margin serves as a substantial incentive for the diversion of pseudoephedrine products.

Operation Mountain Express targeted Middle Eastern brokers facilitating the smuggling and distribution of Canadian pseudoephedrine to Mexican methamphetamine organizations operating throughout the United States. Operation Mountain Express enforcement actions have resulted in the arrests of 282 defendants and the seizure of over 26 tons of pseudoephedrine (an amount capable of producing approximately 50,000 pounds of methamphetamine) and \$15.8 million in United States currency. The pseudoephedrine traffickers targeted in this investigation did not process or otherwise alter the pseudoephedrine. They merely diverted it and sold it to the Mexican methamphetamine traffickers, who then processed it for use in the manufacturing process.

Additional reporting indicates that the proceeds from illegal activities of the Yemeni and other Middle Eastern organizations are usually structured in order to evade financial reporting requirements, and directed to accounts in the trafficker's country of origin.

Operation Containment

Operation Containment was conceived in February 2002 when the DEA brought members of 25 countries together in Ankara, Turkey to develop a coordinated post-Taliban heroin counter-drug strategy to deprive international terrorist groups of the financial basis for their activities. In addition to drugs, this operation also targeted other illicit commodities that could be used by terrorist organizations to finance their operations. Some of the other targeted goods included precursor chemicals, weapons, ammunitions, and currency.

Before the operation began, participating countries agreed to participate in regional initiatives, and developed local plans to diminish the availability of heroin and morphine base along the Balkan and Silk trafficking routes. This action focused on interdiction at specific land, air, and sea border checkpoints by the joint coordinated efforts of the law enforcement and customs authorities in Central Asia, the Caucasus, Europe, and Russia. The operation was coordinated at two regional intelligence sharing centers: the Southeast European Cooperative Initiative (SECI Center) Regional Center for Combating Transborder Crime in Bucharest, Romania and the Bishkek Command Center (BCC) in Bishkek, Kyrgyzstan.

The primary purpose of Operation Containment was to seize as much Southwest Asia heroin as possible before it reached the lucrative markets of Western Europe and the United States. Based on reporting from all participating countries, there were 1,705.715 kilograms of heroin seized during this operation with an estimated value between \$28 and \$51 million.

The largest Bishkek Command Center heroin seizure (actually 2 separate seizures of 48 kilograms and 139 kilograms) took place on July 4, 2002, in Tajikistan by the Russian Border Guards during an armed confrontation with traffickers attempting to cross into Tajikistan from Afghanistan via the Pyanj River.

Upon its completion, Operation Containment was one of the most successful drug interdiction initiatives to be undertaken on a multi-regional basis, and it has become a benchmark for future cooperative international programs. Although the drug seizures that occurred during this operation can be considered a success by any standard, the real achievement of the operation was the mutual participation of nearly 20 countries in a common operational and intelligence sharing action, which until quite recently was almost impossible to be implemented.

Conclusion

The events of September 11th have brought new focus to an old problem, narco-terrorism. These events have forever changed the world and demonstrate even the most powerful nation is vulnerable to acts of terrorism. In attempting to combat this threat, the link between drugs and terrorism came to the fore. Whether it is a state, such as formerly Taliban-controlled Afghanistan, or a narco-terrorist organization, such as the FARC, the nexus between drugs and terrorism is perilously evident.

Nations throughout the world are aligning to combat this scourge on international society. The War on Terror and the War on Drugs are linked, with agencies throughout the United States and internationally working together as a force-multiplier in an effort to dismantle narco-terrorist organizations. Efforts to stop the funding of these groups have focused on drugs and the drug money used to perpetuate violence throughout the world. International cooperative efforts between law enforcement authorities and intelligence organizations are critical to eliminating terrorist funding, reducing the drug flow, and preventing future terrorist attacks.

The DEA is proud to contribute to our national security through a myriad of cooperative international enforcement initiatives and programs. Once again, I would like to thank the committee for the opportunity to share some insights relative to the DEA's role in this critically important issue.

I will be happy to respond to any questions the committee may have.

Statement of John P. Clark
Interim Director, Office of Investigations
Bureau of Immigration and Customs Enforcement
Before the Senate Judiciary Committee
May 20, 2003

Good Morning, Chairman Hatch, Senator Leahy, and distinguished members of the committee. It is a pleasure and a privilege to be here today to discuss the efforts undertaken by the Bureau of Immigration and Customs Enforcement (BICE) in its role in investigating international drug smuggling and money laundering as it relates to narco-terrorism. Prior to beginning my specific testimony, I would like to provide some background on our new Bureau. With the creation of the new Department of Homeland Security, the investigative and intelligence functions of the former U.S. Customs Service and the Immigration and Naturalization Service have been merged to form the Bureau of Immigration and Customs Enforcement under the Department of Homeland Security. In addition, the Bureau includes the Air and Marine Interdiction Division, the Detention and Removal Program, and the Federal Protective Service. In part, the mission of BICE is to protect the United States and its citizens by deterring, interdicting, and investigating threats arising from the movement of people and goods into and out of the United States.

BICE utilizes the broad legal authorities of its legacy components to investigate and enforce violations of law as they had previously, and under BICE, will continue, to protect the United States and its citizens from the dangers posed by criminal organizations, including those linked to narcotics trafficking and terrorism. BICE has the authority to investigate numerous violations, including violations of Immigration laws,

export laws, money laundering, smuggling, fraud, and cyber crimes -including child pornography.

BICE investigations have led to the identification, penetration, and prosecution of individuals and groups who were identified as being members of, or are linked to, designated terrorist organizations such as the FARC (Revolutionary Armed Forces of Colombia) and the AUC (United Self-Defenses of Colombia). Furthermore, BICE, with its formidable money laundering and counter narcotics programs and initiatives, has disrupted and dismantled narcotics smuggling organizations and the financial mechanisms utilized to launder their criminal proceeds.

Background

It is one of our top priorities to identify, investigate, and dismantle the criminal organizations that specialize in the transportation and smuggling of contraband and illegal aliens. The title of this hearing today, "Narco-Terrorism: International Drug Trafficking and Terrorism-A Dangerous Mix" is in essence the challenge faced by BICE special agents on a daily basis. The transportation organization that is paid to smuggle cocaine today may very well be contracted to smuggle instruments of terror or terrorists tomorrow. Historically these smuggling organizations have easily adapted to law enforcement efforts to detect their activity. As a result, BICE investigations have become increasingly complex.

It is clearly evident that the illicit narcotics trade generates enormous profits for criminal organizations. These organizations thrive on their ability to amass huge sums of money. BICE utilizes a multi-pronged approach to investigate these organizations. In an

effort to disrupt and dismantle these organizations, BICE focuses not only on the inbound smuggling of contraband but also the outbound flow of criminal proceeds.

BICE's authority to conduct financial investigations has been derived from a variety of laws that include the 1970 Bank Secrecy Act, 1986 Money Laundering Control Act, the Anti-Drug Abuse Act of 1988 and the 2001 USA PATRIOT Act. In addition, various Memorandums of Understanding (MOU's) between the Secretary of the Treasury, the Attorney General and the Postmaster General have been executed regarding the conduct of money laundering investigations. These MOU's delineate the specified unlawful activities and investigative authorities in which BICE has jurisdiction.

BICE began conducting financial investigations after the enactment of the Bank Secrecy Act (BSA) in 1970. With border search authority, BICE was well suited for investigative activity pursuant to Title II of the BSA, the "Currency and Foreign Transactions Reporting Act" under Title 31 of the U.S. Criminal Code. After the events of 9/11, Congress gave BICE additional tools to combat the movement of money into and out of the United States. Title III of the USA PATRIOT Act, "The International Money Laundering Abatement and Financial Anti-Terrorism Act", added bulk cash smuggling, 31 U.S.C. 5332, to the BICE arsenal. In addition, the USA PATRIOT Act expanded the application of the prohibition on unlicensed money transmitting businesses, 18 U.S.C. 1960.

Since its inception, BICE has had the authority to enforce anti-smuggling statutes to include 18 U.S.C. 545. This authority allows BICE the ability to investigate the unlawful importation of any form of contraband. With Title 21 cross designation, BICE has been authorized by the Department of Justice, and more specifically, the Drug

Enforcement Administration, to investigate narcotics smuggling organizations.

Enforcement of Title 8 of the U.S. Code allows BICE to target individuals or groups of individuals who are attempting to or have entered the United States for illicit purposes. These authorities, combined with our broad border search authority, place BICE in a ideal position to fully investigate smuggling of contraband and humans by sophisticated smuggling organizations while also targeting the financial mechanisms utilized by these elements to launder their illegal proceeds.

One such laundering mechanism is the Black Market Peso Exchange (BMPE), a trade-based money laundering system. The exchange allows drug traffickers to transfer their U.S. profits from dollars to pesos without moving cash across borders. Typically, peso exchange brokers in Colombia deposit pesos into the Colombian accounts of narcotics traffickers doing business in the United States. The pesos are profitably exchanged for the tainted U.S. dollars. The brokers have U.S. based operatives deposit the U.S. money into U.S. accounts that the brokers then use to purchase U.S. goods for Colombian importers in exchange for pesos. The products are then smuggled into Colombia, often through Panama, Aruba, and Venezuela, to avoid paying taxes in Colombia.

BICE has an ongoing aggressive investigative approach concerning the BMPE, which includes utilizing investigative techniques such as undercover investigations, Title III wire intercepts, intelligence gathering, international coordination and training of our international law enforcement counterparts.

BICE undercover operations directed at the peso brokering system have resulted in the seizure of more than \$800 million in cash and monetary instruments in the last

eight years. Undercover investigations conducted by BICE have targeted hundreds of Colombian brokers, accounts, and domestic money laundering and drug trafficking cells operating in several U.S. cities, Central and South America, as well as Europe and Asia.

Case Examples

Operation Wire Cutter was a major joint money laundering investigation conducted by BICE, the Drug Enforcement Administration, personnel assigned to the U.S. Embassy in Bogotá, Colombia and Colombian law enforcement authorities that targeted high level Colombian drug trafficking organizations and their cells.

Operation Wire Cutter began in September 1999 when BICE agents in New York developed information about suspected money brokers, who were using the BMPE scheme to launder millions of drug dollars. The primary defendants were eight senior money brokers, located in Bogotá, Colombia. Each of these money brokers headed distinct organizations that provided money-laundering services to several drug cartels on a contract basis. Subsequently, undercover BICE agents picked up drug money from operatives of the money brokers in New York, Miami, Chicago, Los Angeles and San Juan, Puerto Rico. At the same time, the Colombian authorities conducted a parallel investigation on the BMPE money brokers and their associates in Colombia. Operation Wire Cutter marked the first time that U.S. authorities were able to combine undercover pick-ups of drug proceeds in this country with investigative efforts by Colombian authorities to target BMPE money brokers. Operation Wire Cutter resulted in the arrest of 37 individuals (29 in the United States and 8 in Colombia). U.S. authorities also seized more than \$8 million, as well as 400 kilograms of cocaine, 100 kilograms of

marijuana and 6.5 kilograms of heroin. To date, five money brokers in Colombia have been extradited to the United States. This represents the first time that a money broker has been extradited from Colombia to the United States.

As I mentioned previously, the transportation organization that is paid to smuggle cocaine today may very well be contracted to smuggle instruments of terror tomorrow. By using internal conspiracies, criminals utilize corrupt personnel within the seaport and airport environment to introduce contraband or implements of terrorism into otherwise legitimate cargo or conveyances and to remove it prior to examination by the Bureau of Customs and Border Protection.

In an ongoing investigation targeting internal conspiracies at a major U.S. seaport, BICE Special Agents have uncovered the endemic practice of contraband being removed from international cargo prior to the entry process. Utilizing a variety of investigative techniques including undercover operations and controlled deliveries to successfully infiltrate the internal conspirators, hundreds of individuals have been arrested and convicted, thousands of pounds of cocaine and hundreds of pounds of heroin have been seized.

Another significant internal conspiracy investigation conducted by BICE Special Agents, in conjunction with the Drug Enforcement Administration, was Operation "Ramp Rats". Operation "Ramp Rats" targeted corrupt employees working at Miami International Airport and resulted in more than 70 indictments and arrests. Thirty of those arrested were employees of a major domestic airline. Those arrested in this investigation were charged with varied violations of the federal narcotics laws such as conspiracy to import cocaine into the United States and conspiracy to possess cocaine.

Both of these investigations have targeted corrupt employees in the transportation industry, resulting in the facilitation of smuggling schemes used by criminal organizations. BICE is aggressively implementing programs to address these weaknesses that include the assignment of additional investigative personnel, the utilization of technology and the combination of various law enforcement and security components to counter these threats.

Recently, BICE drug trafficking and money-laundering investigations have highlighted the link between drug trafficking and terrorist organizations. An adjunct of these investigations is the link between the Drug Trafficking Organizations and Colombia's illegal armies. In October 2002, BICE arrested Libardo Ernesto FLOREZ GOMEZ after he arrived at Miami International Airport. Upon arrival he declared over \$180,000 in U.S. currency. A subsequent secondary examination revealed multiple financial records, blank pre-signed checks, a DEA seizure letter and a document that alleged his link to the FARC (Colombian Revolutionary Armed Forces). FLOREZ GOMEZ admitted that the funds declared were not his. On April 4, 2003, FLOREZ GOMEZ pled guilty to one count of 18 USC 1960 for his involvement in operating an unlicensed money transmitting businesses and is currently awaiting sentencing.

Currently, BICE is participating in a highly successful joint Organized Crime Drug Enforcement Task Force investigation with the Drug Enforcement Administration and the Federal Bureau of Investigation that is targeting the maritime transportation of multi-ton shipments of cocaine belonging to the Colombian drug cartels. This investigation has led to indictments against several ostensibly high-ranking members of the AUC. These individuals were indicted for involvement in the maritime transportation

of over of 12 tons of cocaine. As a result of the investigation, a direct link between drug trafficking and known terrorist organizations has been established. Narco-Terrorism will continue to be a top priority of BICE.

Closing

In conclusion, I would like to thank the distinguished members of this committee for the opportunity to speak before you today, and will be glad to address any questions you may have.

Statement
United States Senate Committee on the Judiciary
Narco-Terrorism: International Drug Trafficking and Terrorism – A Dangerous Mix
May 20, 2003

The Honorable Orrin Hatch
United States Senator, Utah

I want to welcome everyone to this important hearing to examine the issue of narco-terrorism.

The problems of terrorism, drugs and international organized crime pose new and significant challenges to our country. As everyone knows, these problems occur across borders, and are less and less subject to control by nation states. Terrorists around the world, and in every region, appear to be increasing their involvement in the trafficking of illegal drugs, primarily as a source of financing for their terrorist operations.

Narco-terrorists participate directly or indirectly in the cultivation, manufacture, transportation or distribution of controlled substances. Several terrorist groups provide security for drug traffickers transporting their products through territories under the control of terrorist organizations or their supporters. No matter what form it takes, or the level of involvement in drug trafficking, several significant terrorist groups are reported to be relying on drug money as one of several significant funding sources.

In the mid-1990s, I became concerned about the nexus forming between international organized crime, political movements and terrorism rising out of certain ungovernable areas of the world. Terrorist organizations developed relationships with illicit narcotics traffickers. In areas such as Afghanistan, a fundamentalist regime became wholly dependent on opium production at the time it became the host to Usama Bin Laden and Al-Qaida. In other parts of the world, such as Colombia, the connection was made through international organized crime, activities which are inconsistent with the ideological basis for terrorist activities.

Today, United States and coalition forces have successfully removed the Taliban from power, but we have not succeeded in stabilizing Afghanistan. Our policy is to support President Karzai, but his Tajik-dominated government has alienated the majority of the Pashtun population, who live in most of the opium producing areas of Afghanistan. This alienation of the Pashtuns has led to instability in Afghanistan that has resulted in fundamentalist and Al-Qaida resistance to U.S. forces and an increase in opium production. The Bush Administration recognizes that the situation in Afghanistan remains unresolved, and I urge the Administration to maintain its commitment to the future of Afghanistan, if we are to root out Al-Qaida and begin to reduce the opium production there.

The reach of narco-terrorism extends across the globe to other areas in Asia, the Middle East, and

Latin America.

In South America, the narco-terrorist threat is well documented, including terrorist organizations such as the Revolutionary Armed Forces of Columbia (FARC), the National Liberation Army (ELN), and The United Self-Defense Groups of Columbia (AUC). Terrorist groups in Columbia rely on cocaine trafficking, transportation and storage of cocaine and marijuana, as well as taxing traffickers and cocaine laboratories, in order to support their civil war, terrorist attacks and the hostage-taking of Americans.

The connection between Middle Eastern terrorist groups, such as Hizballah and HAMAS, and Latin American drug trafficking, has been reported in the Tri-Border area of Argentina, Brazil and Paraguay, which has long been characterized as a regional hub for radical Islamic groups which engage in arms and drug trafficking, contraband smuggling, money laundering and movement of pirated goods.

I would note that, in a recent arrest reported just last week, the cousin of extremist Assad Ahmad Barakat, head of Hizballah in the Tri-Border area, was arrested in Paraguay with 2.3 kilograms of cocaine powder, which he intended to sell in Syria, to benefit the Hizballah terrorist organization. The cousin was reportedly a mule hired by Barakat, as part of the narco-terrorist financing operations needed to support Barakat and Hizballah.

I want to commend the Administration for its continuing efforts to fight narco-terrorism world-wide. Using tools provided in the PATRIOT Act, particularly those involving money laundering and intelligence gathering, the Bush Administration has demonstrated its commitment to fighting not only terrorists, but individuals and organizations which provide critical financing to terrorist groups.

We should make no mistake about it: the impact of global narco-terrorism on our own communities is significant.

· In the District of Columbia, in November 2002, three separate indictments were announced, charging 11 members of the FARC with the murder of three individuals, hostage taking, and drug trafficking involving the distribution of cocaine bound for the United States.

· In Houston, Texas, in November 2002, four members of The United Self-Defense Groups of Columbia (AUC) were caught trying to exchange \$25 million of cash and cocaine for weapons, such as shoulder-fired anti-aircraft missiles, 53 million rounds of ammunition, 9000 rifles, rocket-propelled

grenade launchers, along with almost 300,000 grenades, to be used by AUC operatives.

- In San Diego, California, in November 2002, two Pakistani nationals and one United States citizen were charged with attempting to exchange 600 kilograms of heroin and 5 metric tons of hashish for cash and four anti-aircraft missiles to supply to the Taliban and Al Qaeda associates.

- Recently, in April 2003, the FBI and DEA disrupted a major Afghanistan-Pakistani heroin smuggling operation with the arrest of 16 individuals, in which heroin was being shipped to the United States, profits from the sale of the heroin were laundered through Afghan and Pakistani owned businesses in the United States, and then sent back to finance terrorists.

If we really want to win the war against terrorism, we need to continue and expand our commitment to cutting off all sources of terrorism financing, including drug trafficking. By doing so, we will not only cut off an important source of funding for terrorists, but we will reduce the amount of illegal drugs that poison our communities.

I look forward to hearing from today's witnesses.

I want to turn it over to Senator Biden who is serving as the Ranking Minority Member today for his opening remarks.

###

**TESTIMONY
OF
LARRY C. JOHNSON
BERG ASSOCIATES, LLC
BEFORE THE
SENATE JUDICIARY COMMITTEE
HEARING ON
"Narco-Terrorism: International Drug Trafficking and Terrorism – A
Dangerous Mix "
20 MAY 2003**

Mr. Chairman and members of the committee I want to thank you for the invitation to testify at this very important hearing.

For the record my name is Larry Johnson. I am a former CIA analyst (1985-1989) and also served in the US State Department's Office of Counter Terrorism (1989-1993). I would note in passing that Senator Hatch bears some responsibility for my early career with the Government because he graciously consented to providing me a letter of recommendation to the Central Intelligence Agency in 1985. I am currently a partner in BERG Associates, an international consulting firm that specializes in money laundering investigations and counter terrorism training. We provide case support to DEA and US Customs, exercise support to the Department of Defense, and compliance and due diligence support to financial institutions and brokerages.

I appear before you today to discuss the nexus between terrorism and narcotics trafficking and identify some concrete things we can do to improve this effort. There is no single "cause" of terrorism, but all groups that carry out terrorist attacks require the same thing in order to survive and be effective—money. Money may not be the root of all evil but it is a critical resource for any group that wants to carry out international terrorist attacks. While it is true that building a car bomb or hijacking a plane does not require a vast fortune, planning for and organizing these attacks still require a financial base.

Terrorists are not born with the ready made knowledge on how to make a bomb. They need a place to train, qualified instructors, access to weapons and explosives, and the time to devote to this activity without having to worry where the next meal is coming from. Beyond the costs of recruitment and training, international terrorists also face the logistical expenses. When international terrorists travel from one country to another in order to plan or carry out an attack they must use some form of public transportation (or else they must walk). Terrorist groups do not have their own air force or navy. They travel like we do. They buy airplane tickets, they get on trains, they board ships or they

drive cars. All of these transportation means require money. And once the terrorist arrives at his destination he still has to cope with the mundane tasks of paying for daily living expenses.

Money is the primary bridge linking terrorism and illegal narcotics. This has not always been the case. Prior to 1991, almost all active terrorist groups relied on nation states, (i.e., the Soviet Union, Iran, Iraq, Libya, Syria, and Cuba) for financing and materiel assistance. Few engaged in the production or distribution of illegal drugs. The collapse of the Soviet empire in 1991 cut off an important source of funds to many terrorist groups, especially communist groups. Chart 1 illustrates graphically the effect that the Soviet Union's collapse had on Marxist-Leninist terrorist groups. In the subsequent three years the number of Marxist terrorist groups fell by half. Many of those that continued to operate, particularly the FARC, the ELN, and the PKK, redirected their activities in varying degrees to illegal narcotics.

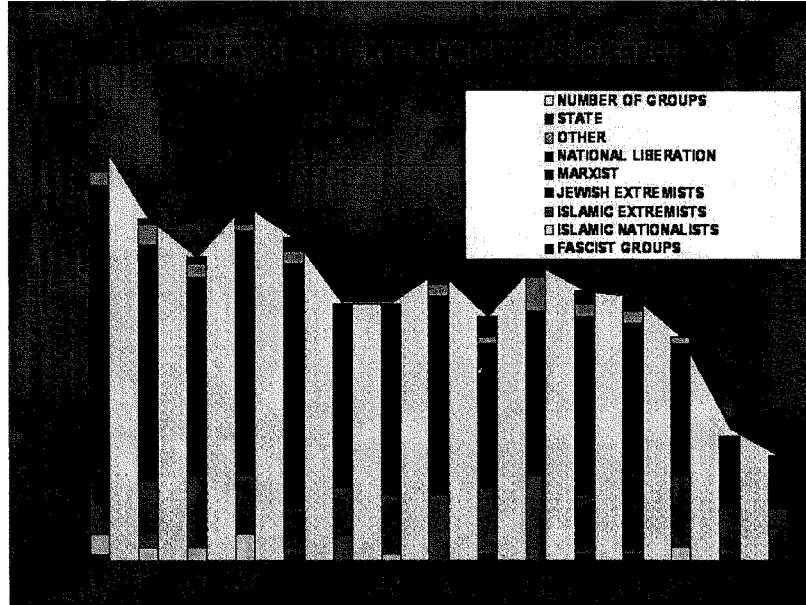


Chart 1

International pressure against state sponsors of terrorism also reduced access to traditional sources of funds for terrorists. Libya, for example, faced significant international sanctions from UN members because of its hand in helping plan and carryout the 1988 bombing of Pan Am 103. As we moved into the 1990s several countries, but especially Cuba and Libya, scaled back their level of financial support.

Without being able to obtain money from nation states many terrorist groups faced the dilemma of ceasing operations or finding alternative sources of financing. Moving into the production and distribution of illegal narcotics was a natural shift for many of these groups. While the drug trade is not the only source of financing terrorist activity, we should underestimate its importance.

Anecdotal evidence reinforces the different facets of this problem:

- In August of 2001 members of the IRA were arrested in Colombia for providing training in explosives and improvised mortars to the Colombian terrorists. Senior members of the Colombian National Police believe that drug money helped fund that activity.
- In September 2002 three men—two Pakistanis and an Indian-born U.S. citizen—offered undercover FBI agents 5 tons of hashish and 1,300 pounds of heroin in exchange for Stinger missiles.
- Earlier this month the cousin of the head of the Hizballah in South America was arrested in the tri-border area (Paraguay, Brazil, and Argentina) with over two kilos of cocaine that he intended to sell in Syria.

The most recent statistics on terrorist activity underscore that the link between terrorism and illegal narcotics is not just incidental. [The following is drawn from the recently published US Department of State, PATTERNS OF GLOBAL TERRORISM 2002.] Last year international terrorist incidents fell to their lowest level in 34 years—199 attacks in 2002. If we examine the details we find that the incidents and fatalities are concentrated in two specific areas of the world:

- India and Colombia together accounted for almost 60% of all international terrorist attacks (34% in India and 23% in Colombia).
- There were 725 deaths worldwide from international terrorism. 80% of these were caused in 68 attacks that occurred in five countries (India, Pakistan, Israel, Russia, and Indonesia). Islamic extremists were implicated in all of these attacks.
- India, with 31, and Israel, with 25, experienced the most attacks that caused deaths.
- Out of 2013 injuries worldwide from international terrorist attacks, 99% of these occurred in seven countries (India, Pakistan, Philippines, Israel, Russia, Indonesia, and Kenya).

A picture is worth a thousand words and the following maps tell a compelling story. First, we see clearly that Colombia and India are the primary centers for terrorist activity. The terrorism in Colombia is directed chiefly against the people of Colombia and the foreign companies who are building and maintaining oil pipelines. It is true that the Colombian groups—the FARC and the ELN—have shied away from attacking foreign targets outside of Colombia. But inside

Colombia they have engaged in vicious bombing and kidnapping campaigns. These have left thousands of Colombians grieving and suffering.

The terrorism in India is different and more dangerous to world peace. It is part of the worldwide Islamic jihadist movement. Although couched as a struggle over the Kashmir region in northwest India, the antagonists behind the attacks in India are radical Islamic groups—e.g., Lashkar Tayyiba, Harakat Ul Ansar—that were trained in the Afghan terrorist camps controlled by Al Qaeda. In addition, these groups have been supported and assisted by renegade elements of Pakistan's intelligence service. Two Pakistani ISI operatives reportedly died in the cruise missile attacks the United States launched in August 1998 on Al Qaeda camps in Afghanistan in retaliation for the bombing of US embassies in East Africa.

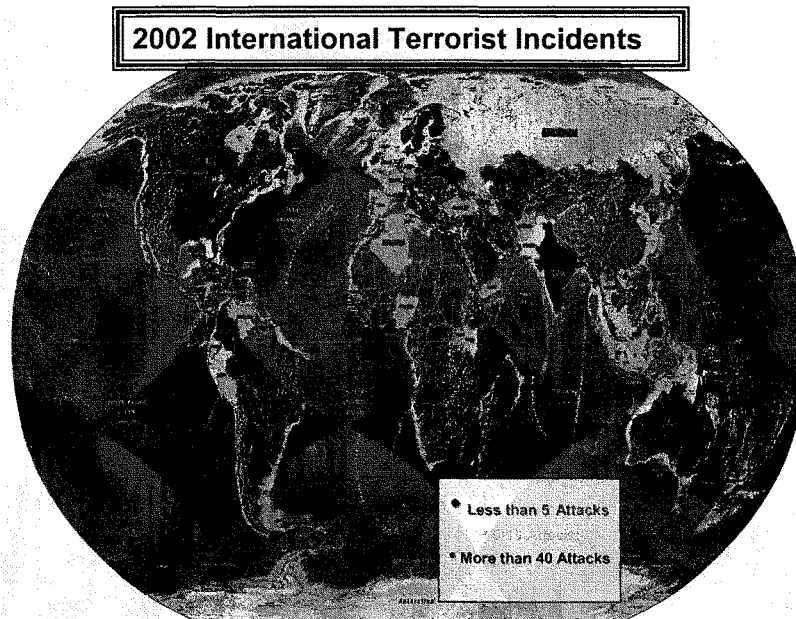


Chart 2

Now look at the world map detailing the countries where the key ingredients for Heroin and Cocaine are grown. India sits between Afghanistan to its west and Burma to its east. According to the US State Department's 2002 INCSR, Burma accounted for 54% and Afghanistan 21% of the acres devoted to the production of opium. Looking to Latin America we see that Colombian acreage represents 70% of the productive activity with Peru (18%) and Bolivia (12%) fill out the list.

It is no simple coincidence that the areas of the world plagued with most of the terrorist activity are also the areas of the world with most of the narcotics production.

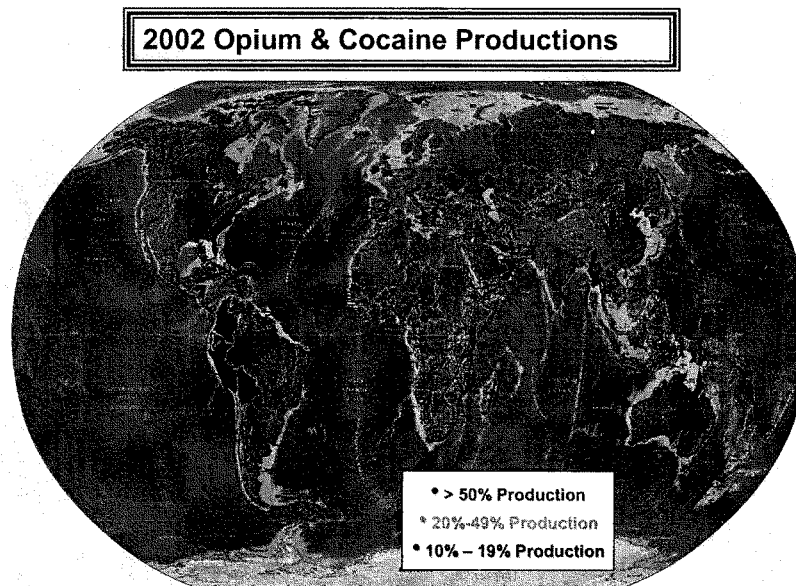


Chart 3

Given these facts it is incumbent on the Executive and Legislative branches of the United States to address the threats of terrorism and narcotics trafficking in an integrated fashion. Unfortunately there are signs that we are continuing to delude ourselves with the notion that these are separate and distinct phenomenon.

In the immediate aftermath of 9-11, for example, FBI Director Mueller announced that the FBI would focus on counter terrorism and put aside other matters, including undercover drug operations. Last week I spoke at a regional conference of the Organized Crime Drug Enforcement Task Force. A couple of FBI agents made a point of speaking to me and lamenting the fact that they are no longer able to get the attention or resources from Washington for drug and money laundering investigations. All are aware of the new attitude in Washington. Stated simply, "Counter Terrorism is en vogue and Counter Narcotics is out of style". This is insane!

I am not arguing that the FBI should be given the lead on drug investigations or that its role in such investigations in this area be expanded. But we must stop sending the message that the effort to stop drug trafficking and drug usage is less important than battling the threat of terrorism. The Congress and the Executive branch must send a clear, unmistakable message to our law enforcement and intelligence communities, as well as to our enemies—We are committed to fighting both drugs and terrorism.

The key to this process is better coordination between law enforcement and intelligence. In fact, the failure on this front in the past prevented us from recognizing the emerging link between terrorism and narcotics traffickers. I attended a meeting at the CIA's Counter Narcotics Center in 1995 with Ambassador Morris Busby, who had just returned from his tour as the US Ambassador to Colombia. During a discussion with senior CNC analysts Ambassador Busby made an off-hand remark about the increased activity of Colombian terrorists (the FARC and the ELN) in drug trafficking. The CIA analysts dismissed this claim as unfounded because they had no proof of such activity. We left without resolving the dispute.

It took a couple of years before I understood why there was this enormous gap between a field operative and the intelligence community. The CIA analysts did not have access to DEA reports and the Ambassador did. Information about narcotics trafficking activity generated through law enforcement sources was handled as case material that would ultimately be submitted to a grand jury or a judge. Accordingly intelligence analysts rarely if ever gained access to such documents. Ambassador Busby, however, as head of the country team in Bogota was fully informed about DEA activities and findings. He had read the DEA field reports (known as "Sixes") that described in detail the involvement of various FARC and ELN personnel in drug transaction.

It is also important that we recognize that the methods and techniques required to combat effectively drug traffickers are the same for combating terrorists. Specifically:

1. We need human sources inside the organizations that can provide intelligence about plans and operations.
2. We need better sharing between law enforcement and intelligence agencies. I would note that the recent indictment of South Florida professor Sami Al Arian was based on years of intelligence collection that, prior to the passage of the Patriot Act, was unavailable to prosecutors. Let us ensure that the flow of information between the intelligence community and the law enforcement community continues.
3. State and local officials need to be brought into the loop on Federal intelligence. There has been good success on this front in the field of narcotics investigations. DEA in particular has been aggressive in sharing information with local police. The same can not be said, however, with

the sharing of intelligence on terrorism issues. While the FBI has made improvements since 9-11 in this area I am still hearing the same complaint from contacts I have in the law enforcement community around the country—it remains a one way street.

4. Federal laws must be reviewed periodically to ensure they remain responsive to the changing tactics of terrorists and drug traffickers. My partner, Mr. John Moynihan, testified before the House Banking Committee in October 2001 and specifically recommended that ***"A federal law criminalizing the act of engaging in money exchanging without a license needed to be adopted." Indeed, the PATRIOT ACT, enacted just a few months later modified the law (section 1960 of Title 18 US Code) making it a more important and effective tool for use in the prosecution of "unlicensed money remitters".***

At present my company is assisting agencies of the US Justice Department with an investigation of individuals with links to both terrorism and narcotics trafficking. The investigation involves the abuse of "Cash Letters", sometimes referred to as an "International pouch".

In layman's terms, a "cash letter" is an inter-bank transmittal letter that accompanies checks or cash instruments sent from one bank to another internationally. Large banks receive cash letters on a daily basis from correspondent banks. These cash letters can often contain hundreds or thousands of checks that are bundled together and sent to the correspondent bank for collection. Once received the checks must be sorted and processed and ultimately forwarded to the payee banks for collection. Checks are often routed through the Federal Reserve System, other banks or regional check processing centers for collection. In short, the Cash Letter agreement between banks is a depository action that is in place to ensure that foreign banks get paid for checks that they accept for deposit from abroad.

In recent years, we have personally noticed an increase in the use of "Cash letters" as a vehicle for International money laundering. As wire transfers and other forms of traditional laundering have come under increased scrutiny and regulation, organized crime groups and terrorists have turned to other methods of moving their money internationally. Consequently, the international movement of bulk quantities of personal checks now figures prominently in money laundering or money movement schemes.

First, some relevant background: Banks open accounts for other banks; these are known as correspondent accounts. These correspondent accounts are used for the movement of funds between banks. Many times, the correspondent will send monetary instruments from their overseas locations to the United States to be deposited into their correspondent bank accounts. Those checks, money orders, cashiers checks etc. are accompanied by a deposit slip that details the

value of the instruments with a date and the accompanying checking account number the funds are to be deposited into. This is the essence of the cash letter; it is very much a hard copy transaction.

These cash letters are sent to designated areas of the bank for processing. Some banks handle as many as five to seven million checks a day for processing. Therefore, when these cash letters are delivered to the banks by shipping companies in pouches and overnight bags, it would be extremely difficult to ensure that those instruments are not the subject of or facilitating money laundering.

How do these instruments end up in the hands of the correspondent banks abroad? There are many ways in which this can happen. Some persons seeking to send monies abroad will send dollar denominated checks to beneficiaries in foreign countries. These beneficiaries will then present them at a bank in their home country. The local bank receiving the checks will then establish a credit balance for the depositor who presented the checks in the local currency. When the account holder seeks to liquidate the deposit and use the local currency he is free to do so at his discretion. This is an example of how the beneficiaries receive the funds abroad and are not identified as they would be if a wire transfer had been used.

Once the checks are in the foreign bank, the bank wants to get credit for them. Therefore they initiate a package delivery to be sent to their correspondent bank in the United States. The correspondent receives the package of instruments (the cash letter) and credits the correspondent account in U.S. dollars.

How then are these cash letters used in a money laundering scenario? Through our work we have seen many examples where cash is structured using money orders.

1. Persons buy multiple money orders at or below \$10,000 or even given current regulations at or below \$3,000. The sum total of the purchases of money orders is in excess of \$10,000. Given this, it would be necessary to file a Cash Transaction Report. The act of purposefully purchasing the money orders in denominations below reporting thresholds to by-pass the filing of a cash transaction report is structuring.

2. These structured money orders are then sent to a foreign location. The receiver accepts delivery of these money orders abroad. This person proceeds to his local bank. He presents these U.S. denominated money orders to his bank for deposit. The foreign bank accepts the money orders and credits his account for the equal and offsetting value in the local currency.

3. The receiving bank now will seek to obtain credit for these money orders. They will present these money orders back to their correspondent bank in the United States. The reason they bring these checks back to the United States is because the checks are denominated in U.S. dollars. Once these checks are

presented to the bank in the United States, the foreign bank is credited into their correspondent account.

4. The United States bank will now process these checks. They will use a variety of systems to send the checks back to the issuing banks. The structured money orders will be eventually sent back to the bank or vendor issuing them.. Thus the complete cycle of the structured purchasing of money orders being sent to a foreign bank for credit and the eventual return to the United States of those checks has been completed.

There are many other examples of how "bad" money in the form of checks moves through the cash letter product. Many checks that float in the black markets around the world end up in these correspondent accounts from the deposits of cash letters. Checks with two or maybe even three different styles of hand writing dated five or six months earlier than the deposit date are clear indicators of black market operations. Sometimes personal checks are presented where amounts of \$9,990 and other amounts close to \$10,000 are included in the deposits. Again, the amounts are indicative of attempts to evade reporting requirements. Some checks do not even have payees indicated and third parties purchase these checks, stamp them with their own name and then deposit them. The return of all of these checks to the United States correspondent is done through the cash letter process.

To be sure, the cash letter business involves billions of dollars in checks that originate in U.S. based banks. Monitoring these millions of checks manually is a daunting if not impossible task. Given this, money launderers and terrorists exploit this lack of monitoring for their particular interests. This is the latest issue that we feel needs to be addressed as a new and important element of a comprehensive anti-money laundering strategy.

RECOMMENDATION:

The federal government should immediately conduct a review of the "cash letter" money laundering connection in money center banks and large correspondent banks and propose rules that would require those correspondent banks to monitor cash letter transactions for suspicious activity.

A vigorous monitoring program would identify and stop payment on suspicious instruments, thereby taking the profit out of the activity and making it difficult for suspect money to move through the system. Additionally, it would identify those overseas banks who are the most egregious offenders and put them on notice that they need to cease and desist their activities. If necessary and warranted, repeat offenders could be fined, sanctioned or lose their ability to bank through the United States.

CONCLUSION:

We have made important strides forward in battling terrorism since the horrific events of 9-11. Serendipitously some of the reforms designed to improve our ability to detect and prosecute terrorists have been effective as well in battling illegal narcotics. Both represent threats to our society and well being of our citizens. I welcome the efforts of this committee to ensure that all available resources are committed to both tasks.

Larry C Johnson

lcjohnson@berg-associates.com

www.berg-associates.com

U.S. SENATOR PATRICK LEAHY

CONTACT: David Carle, 202-224-3693

VERMONT

**Opening Statement of Senator Patrick Leahy
Senate Judiciary Committee Hearing on
“Narco-Terrorism: International Drug Trafficking and Terrorism—A Dangerous Mix”
May 19, 2003**

Today’s hearing focuses on “narco-terrorism.” We can all agree that it is a laudable goal of the United States to rid itself of any illegal source of money through which terrorist organizations are funded. Moreover, the problem of illegal drugs and the ravages of untreated drug addiction give us reason enough to battle drug trafficking. As a former prosecutor, I recall the tentacles of drug use and distribution that attack all aspects of our society.

As this Committee considers one important terrorism issue, it is impossible to ignore last Friday’s disturbing Knight Ridder report that the Justice Department has camouflaged routine prosecutions as terrorism cases. In January, the General Accounting Office reported that, for fiscal year 2002, three-fourths of all so-called “terrorism convictions” by the Justice Department were wrong in that they were not terrorism convictions at all. And, in the first 2 months of this year, the Justice Department purported to file terrorism charges against 56 people - though again at least 41 have nothing to do with terrorism cases - a fact the line prosecutors acknowledge. This is cause for great concern and reason enough to have the Attorney General return to testify before this committee.

I look forward today to discussing something that will help in the fight against terrorism consistent with the goals and policies of the USA PATRIOT Act. My concerns in this area are not new, having sponsored legislation for many years to strengthen federal prosecution and seizure of illegal proceeds of international drug dealing and criminal activity, to deter and punish international crime, to protect U.S. nationals and interests at home and abroad, and to promote global cooperation against international crime. Indeed, I supported Section 2339C of the USA PATRIOT Act that for the first time specifically established felony offenses for providing or collecting funds for terrorists.

To assist in curbing the influx of drugs to the United States and stopping the flow of money used to finance terrorist activities, we must provide both support and scrutiny to our federal agencies charged with this responsibility. This Committee should use its oversight power to examine closely the administration’s efforts in this area. What tools provided by the USA Patriot Act are being used, and to what effect? Despite repeated overtures, I have yet to be told whether and how many of the measures enacted in the USA PATRIOT Act – including new authority for the Secretary of Treasury to restrict or prohibit access to the U.S. financial system and punish those who aid in financing terrorist organizations - are being used. I am also concerned that the U.S. has not found a way to work consistently and effectively with other governments and private entities in the common fight against terrorism.

senator_leahy@leahy.senate.gov

http://leahy.senate.gov/

I hope this hearing will also address the recent criticism of the Council on Foreign Relations, in cooperation with the Markle Foundation, that the administration has not yet developed a clear, consistent strategy that unites anti-drug and counter-terrorism policy. I hope our witnesses explain why the FBI continues to reassign hundreds of agents from drug enforcement to counter-terrorism, when they believe that drug profits are fueling terrorist activities. Mr. Casteel of the DEA has openly and correctly stated that his agency is not an anti-terrorism organization – I am curious whether the DEA is receiving the support and information it needs from the FBI and other agencies that do have an antiterrorism mission. There continue to be conflicting reports in the press and among administration officials whether drug trafficking is a major funding source for terrorist networks other than Colombia's FARC. Indeed, Administration officials who provided briefings before this hearing even said there was no defined link between extremist groups such as Al Qaeda and Hizballah, and drug trafficking.

"Narco-terrorism" must not become a catchphrase that justifies throwing money and resources at policies that have little or nothing to do with reducing drug abuse or protecting the national security. Decisions about involvement in other nations' affairs must be made with great care. As I have said in discussing Plan Colombia, we must be ever mindful of crossing the line from counter-narcotics to counterinsurgency. Even in nations where we have tremendous influence and a physical presence, such as Afghanistan, we are confronted with limits to our power. The DEA reports this year that Afghanistan returned to its former position as the world's largest producer of illicit opium in 2002 despite a so-called ban on poppy production in 2001 and DEA's prediction in December 2001 that this drug market could be eliminated. Despite our presence in Afghanistan, is increased poppy production a sign of problems to come here? What can and should the U.S. be doing to reduce the demand for heroin, especially among our youth? These are the questions that need answers.

I hope this hearing provides an opportunity for the Committee to learn what our law enforcement agencies are doing in their mission to combat terrorism and preserve national security. I would particularly like to thank Senator Biden for serving as the Ranking Member for this hearing, and for his long involvement in narcotics issues.

#####

PERSPECTIVES ON NARCOTERRORISM

Testimony Prepared for a Hearing on Narcoterrorism
Senate Judiciary Committee

May 20, 2003

Rensselaer Lee
Global Advisory Services
McLean, VA

A modern trend in terrorism is toward self-financing and diminished sponsorship by national governments. As a result, the lawless worlds of organized crime, including drug-dealing, and international terrorism have increasingly converged in recent years. The overlap or intersection of these worlds creates the impression of a unitary threat, summed up in the concept of narcoterrorism. It is often assumed that the war on drugs, if successfully pursued, can be a panacea of sorts for terrorism—depriving terrorists of essential funding, crippling their operations, and promoting stability in troubled parts of the world.

Both counternarcotics and counterterrorism programs relate to the general work of nation-building in conflict-torn nations. Experience and logic, though suggest that our narcotics assistance efforts in foreign countries are a limited tool in the fight against terrorism and cannot be a substitute for it. This is the general thrust of my testimony today, the main points of which can be summarized as follows.

- 1) Drug traffickers and terrorists are not the same enemy, although they share certain attributes and perspectives.
- 2) Drugs are not central to the fund-raising strategies of important terrorist groups.
- 3) Even if deprived of narcotics funds, terrorists can expand into other lines of criminal activity, and are likely to do so.
- 4) The imperatives of fighting narcotics industries do not necessarily coincide with the imperatives of fighting terrorism, and may even conflict with them at certain points.

Let's start with the question of motive. Professional drug criminals, including major cocaine and heroin exporters, are concerned primarily with amassing vast wealth, concealing the fruits of their crimes, and avoiding prosecution. By contrast, terrorists' regional and global networks serve predominantly non-financial goals—for example, seeking political influence or legitimacy, redistributing national power and wealth, or fulfilling a radical religious vision. At times, the interests of terrorist and criminal lawbreakers appear to coincide (both benefit from the weakness of central governments, for instance) but at times they conflict. In Colombia, one notes, drug barons and leftist guerrillas have long competed for control over territory, wealth and narcotrafficking assets and in Afghanistan many heroin kingpins have thrown their support to regional warlords fighting the Taliban and al Qaeda. Such apparent anomalies have posed policy dilemmas for the United States and the governments concerned, a point I will return to later.

To be sure, criminals sometimes behave like terrorists and vice-versa—as when the Medellín cartel bombs a supermarket or an Avianca flight or a Colombian guerrilla commander sells cocaine to Mexico and Brazil in exchange for weapons—but let’s keep in mind the basic differences. Dealing with narcobusinessmen is primarily a law enforcement problem (though not exclusively so) whereas breaking the power of major terrorist or insurgent groups may require application of military, diplomatic, economic, political, enforcement and intelligence tools, deployed in various combinations.

A second point is that terrorist organizations vary greatly in their involvement with drugs. Some, such as the Revolutionary Armed Forces of Colombia (FARC), Peru’s Shining Path guerrillas, the Wa army in Burma and the former Kosovo Liberation Army rely substantially on drugs to fund their anti-state or separatist agendas. Such groups engage in other illegal enterprises as well. But dangerous Islamic terror entities such as Hezbollah, Hamas, and al Qaeda display a contrasting financing pattern. They rely preeminently on business commitments and contributions from Arab supporters, often funneled surreptitiously through Islamic charities, and—in the case of Hamas and Hezbollah—on infusions of money, weapons and training from sympathetic states. Drugs appear to play a relatively small role in the fund raising strategies of these organizations and of European non-Islamic groups such as the Basque Fatherland and Liberty Front in Spain. Simply put, what we can accomplish on the international drug front will have a greater impact on some terrorist entities than on others.

A third point, derived from observations of organizational behavior, is that we can’t expect malevolent subnational groups to necessarily cease operations just because a principal income stream or source has been cut. For instance, Colombia’s FARC could compensate for a loss in drug revenue by augmenting income from tried and true criminal lines such as kidnapping, extortion and hijackings—inflicting even more terror and misery on the Colombian population. Or it could take up even more unpleasant occupations, such as trafficking in human body organs or in components of nuclear, chemical and biological weapons. A possible analogy can be drawn to American criminal organizations after the repeal of Prohibition, when organizations that had flourished from peddling bootleg whiskey simply expanded into new areas such as extortion, gambling, loan-sharking, murder-for-hire and, of course, drugs. An implication of this argument is that programs that attack terrorist financing can’t substitute for ones that target the terrorist organizations per se—particularly their core leadership, ideological foundations, and recruitment stratagems. Absent a centralized leadership and clear ideological direction, organizations like the FARC might devolve into localized bandit units that—while certainly a nuisance—pose less of a threat to the state and to civil society.

The last main point is that counternarcotics and counterterrorism policies sometimes don’t mesh well and may even work at cross-purposes. I’d like to illustrate this argument with arguments from two war-torn and drug-torn countries: Afghanistan and Colombia.

Afghanistan, as you may know, is the world’s largest opium-producing country, accounting for about three-quarters of global output. Afghanistan is expecting another record opium harvest this year. Obviously eradicating opium is a desirable and necessary

goal. But overshadowing the drug control problem has been the war on terrorism, which has comprised several main components: overthrowing the Taliban regime, rooting out pockets of Taliban and al Qaeda resistance and cobbling together a viable governing coalition of anti-Taliban elements. Aspects of narcotics control policy have been viewed in Washington and Kabul as contradicting the consensus-building imperatives of the anti-terror fight. Alliances have been formed and compromises struck with political forces which, while definitively opposed to the Taliban, have a history of facilitating or benefiting from the drug trade. Significantly, U.S. and other coalition forces operating in Afghanistan have generally avoided becoming involved in the country's drug problems. The military has not attacked poppy fields, opium storehouses or heroin laboratories or made a point of pursuing drug kingpins. Meanwhile, opium's hold on the Afghan economy and on the lives of rural Afghans remains substantial. Curbing entrenched narcotics interests clearly is a prerequisite for long-term political development in Afghanistan, but for the immediate future counterterrorist operations, which may require a measure of coexistence with these interests, are likely to remain a higher priority.

Colombia, the world capital of cocaine, is beset by a 40-year civil conflict that seems to be intensifying with time. U.S. support for counterinsurgency is growing; yet in contrast to Afghanistan, counternarcotics objectives still dominate the U.S. agenda in Colombia. Certain narcotics control programs may detract from the Colombian government's efforts to suppress anti-state guerrillas and gain or regain control over its territory. One such aspect is the aerial fumigation of illicit crops which, as one Colombian observer noted "necessarily delegitimizes the state and legitimizes the armed groups."¹ Aside from alienating rural populations that stand to lose their livelihood, the U.S.-funded eradication campaign tends to push the coca frontier farther into remote jungle areas where the presence of the state is weak or non-existent. There are good reasons to rethink the logic of the spraying campaign and to pay more attention to the "hearts and minds" dimensions of counterinsurgency warfare. Washington and Bogota might learn from the example of Peru, which suspended coca eradication altogether at the end of the 1980s to gain wider popular backing for the struggle against the Shining Path guerrillas. Besides, compulsory eradication hasn't worked particularly well as a narcotics control strategy; the total amount of coca cultivation in the Andes has not changed much since the late 1980s, although some geographical shifts have occurred.

The counternarcotics agenda has also intruded on Colombia's efforts to scale back the power of rightist paramilitary organizations and their umbrella organization: the United Self-Defense Forces of Colombia. (AUC). A broad accommodation with the AUC is in everybody's interest: it would allow the Colombian government to extend its authority and the rule of law in territory that the AUC now controls. Since the paramilitaries include a fair share of thugs, murderers and drug operators, the expected result would be improved civil administration and a generally more favorable human rights picture in Colombia. Last September, though, the Justice Department indicted Carlos Castano and other paramilitary chiefs on drug trafficking charges, threatening to derail prospects for a comprehensive settlement. With the United States, Colombia's main ally, seeking the

¹ Sergio Uribe "La bala de plata" SEMANA (Digital) January 24, 2003

paramilitaries' extradition, the latter have little incentive to give up their sanctuaries or their weapons.

As a final point in this critique of narcoterrorism, let me refer to the oft- heard argument that the traffic in illicit drugs in itself is a form of terrorism directed against the American people. Certainly this argument has merit on its face. Drug abuse costs U.S. society an estimated \$160 billion a year in productivity losses, health care costs, crime, and criminal justice expenditures. But important distinctions must be drawn here. Unlike the perpetrators of terrorist acts against us, drug peddlers generally are motivated by the desire to obtain profits, not to inflict harm on U.S. nationals or institutions. Also, unlike the victims of the September 11, 2001 attacks or of successive kidnapping-murder episodes in Colombia, victimized drug consumers have a choice—to abstain from buying and using these illicit substances.

DEBORAH MCCARTHY
DEPUTY ASSISTANT SECRETARY
FOR
INTERNATIONAL NARCOTICS AND LAW ENFORCEMENT AFFAIRS
U.S. DEPARTMENT OF STATE
HEARING BEFORE
COMMITTEE ON THE JUDICIARY
UNITED STATES SENATE

NARCO-TERRORISM:
INTERNATIONAL DRUG TRAFFICKING AND TERRORISM --
A DANGEROUS MIX

MAY 20, 2003

Mr. Chairman and Members of the Committee, thank you for the opportunity to speak to you today on behalf of the Department of State on this important subject. I am accompanied today by Mr. William Pope, the Principal Deputy Coordinator in the State Department's Office of Counterterrorism (S/CT).

Over the past year and a half, the War on Terrorism has met with some stunning successes -- the liberation of Afghanistan from Taliban control, the break-up of terrorist cells in Singapore and the United Kingdom, and major arrests of terrorists in Greece. But as events in Saudi Arabia, Morocco, Israel and Chechnya tragically illustrated last week, the War on Terrorism has not ended. In his speech at the Vinell compound in Saudi Arabia, Secretary of State Powell said, "Notwithstanding ... the damage you see here today, it will not deter the United States, ... in our ... effort to go after this kind of terrorism and roll it up: go after their finances; go after their information systems, their intelligence systems; make sure we take full advantage of our law enforcement assets."

Well before September 11, 2001, the State Department's Bureau for International Narcotics and Law Enforcement Affairs (INL) was working to combat narcotics production and trafficking, international money laundering, cyber crimes and theft of intellectual property rights. In FY 2003, Congress appropriated INL more than \$900 million to advance these objectives. In the wake of the terrorist attacks, our mission -- to provide support to

counternarcotics and other anti-crime efforts worldwide -- received increased attention.

While S/CT has the lead in the Department for coordinating our activities in the war on terrorism, INL strongly supports these efforts through our counternarcotics, anti-money laundering, and crime control activities, which provide training, equipment and institutional support to many of the same host nation law enforcement agencies that are charged with a counter-terrorist mission.

To counter the increasing linkage and overlap among terrorist, drug and other criminal groups, INL has begun integrating counternarcotics and anti-crime programs with broader law enforcement efforts to help stop these threats before they reach U.S. soil. We do this through a comprehensive range of bilateral, regional and global initiatives aimed at building up the law enforcement and justice systems of key foreign countries so that they can better control crime problems internally -- before they threaten the United States. Such efforts include extending the U.S. first line of defense by helping other nations strengthen their border control enforcement, thus ensuring that terrorists and other trans-national criminals have no place to hide themselves, their weapons or their ill-gotten money.

The Terrorist Interdiction Program (TIP), developed by S/CT to install powerful computer databases at airports and other points of entry in friendly countries, enables immigration officials quickly to cross-check passports and visas of arriving persons against a database containing information on terrorist suspects and other criminals.

We also work diplomatically with other countries and with international organizations to develop stronger international law enforcement and financial regulation standards and to close jurisdictional gaps through which terrorists and other criminals sometimes slip. INL's programs to fight corruption are an integral part of our anti-crime efforts, since ingrained corruption often frustrates attempts to reform the legal, political, economic and social institutions, which, in the long run, are the keys to controlling terrorism and other crime.

Although the sources of funds may vary between terrorists and other criminals/drug traffickers (for example, terrorists may obtain funding from "clean" sources such as contributions to charities that are diverted, or from front-company operations), the methods used by terrorists and drug traffickers to transfer funds are similar.

Illicit finances, and the means used to conceal profits and transfer funds, are of special concern. Both groups use informal value transfer systems such as "hawala" or the deeply established Colombian peso black market exchange and also rely on bulk cash smuggling, multiple accounts, electronic transfers, commodities and front organizations to raise, move and launder money. The methods terrorists and drug traffickers use can commonly include passing money through businesses or humanitarian organizations which carry on substantial activities which are otherwise apparently legitimate, helping cover and launder the criminal and terrorist money. Both types of groups make use of fraudulent documents, including passports and other identification and customs documents to smuggle people, goods and weapons.

Increasingly, terrorist and criminal organizations, which have fundamentally dissimilar motives for their crimes, may cooperate by networking or sub-contracting on specific tasks when their objectives or interests intersect. For example, certain South American kidnapping gangs frequently sell custody of their victims to larger terrorist groups on what amounts to a "secondary market."

FROM STATE-SPONSORSHIP TO DRUG TRAFFICKING AND OTHER CRIME

In the past, state sponsors provided funding for terrorists, and their relationships with terrorist organizations were used to secure territory, weaken an adversary or obtain weapons. In recent years, however, as state sponsorship of terrorism has come under increased scrutiny and greater international condemnation, terrorist groups have looked increasingly at drug trafficking and other criminal activities as sources of revenue.

Unlike other crime, however, drug trafficking often has a two-fold purpose for some terrorists. Some terrorists not only obtain operational funds through drugs, but also believe they can weaken their enemies by flooding

their societies with addictive drugs. So while certain terrorist groups are increasingly involved in organized rackets in kidnapping, piracy, weapons trafficking, extortion, people smuggling, smuggling of cigarettes and other contraband, financial fraud or other crimes, drug trafficking occupies a special position both in terms of profitability and as a perceived direct weapon used against the United States and certain other countries. Some terrorist groups in particular use this argument to rationalize their involvement in illicit activity to their membership or support base.

Just as terrorists and other criminals increasingly cooperate with one another or adopt one another's methods, law enforcement efforts against profit-driven and ideologically motivated criminals and terrorists also increasingly overlap. For example, INL-sponsored training to foreign law enforcement authorities on bomb-blast investigations is valuable regardless of a bomber's motivation. The same is true of most other capacity-building programs, such as strengthening forensic laboratories or improving a police agency's management systems. Likewise, INL's programs around the world to strengthen maritime patrols as well as sea, land and airport security, may in some regions be targeted primarily against drug or migrant smugglers, but carry significant collateral benefits in fighting terrorism.

In other regions or circumstances, terrorists and their support infrastructure may have a higher priority but other organized criminal activity is caught in the same net. For example, a scanner that detects a hidden compartment is valuable whether it is used to locate drugs, cash, poached ivory or a bomb.

Fighting money laundering and terrorist financing provides a particularly clear example of the need for inter-agency and international cooperation across crime-fighting and counter-terrorism disciplines. INL works with the Departments of Justice, Treasury and Homeland Security as well as other U.S. entities in cooperating with nations around the world to thwart criminals' attempts to launder their funds and to investigate and prosecute those who are involved in moving criminal proceeds. These same law enforcement controls also help prevent the raising and movement of terrorist support funds.

This is not to say that fighting crime and fighting terrorism are synonymous. There are important areas in law, policy, diplomacy and program management where the two must be treated separately. The point is that as the lines between terrorists and other criminals increasingly blur, governments must fight back with adequate flexibility. Law enforcement is one key tool among several in counter-terrorism, and one that benefits from increased inter-agency and international cooperation. It also stretches limited resources--critical in these trying economic times.

DRUG TRAFFICKING AND TERRORISM

In Colombia, the links between drugs and terrorism are of particular concern. U.S. policy supports the Colombian Government's efforts to strengthen its democratic institutions, promote respect for human rights and the rule of law, intensify counter-narcotics efforts, foster socio-economic development, address immediate humanitarian needs, and end the threats to democracy posed by narcotics trafficking and terrorism.

Since the date of our previous testimony on this topic (3/13/02), a good deal has changed. A new President - Alvaro Uribe - assumed office August 7, 2002, and has set Colombia firmly on a course of strengthening its military and police forces to defeat the narco-terrorist threat. Congress has granted the Departments of State and Defense expanded authorities to assist the Colombian government in its unified campaign against narcotics trafficking and activities by designated terrorist organizations.

There are a number of terrorist groups operating in Colombia -- the three largest of which are the Revolutionary Armed Forces of Colombia (FARC), the United Self-Defense Groups of Colombia (AUC), and the National Liberation Army (ELN). Revenue that they receive from narcotics cultivation, taxation and distribution provides at least half of the funding that the FARC and AUC rely on to support their terrorist activities. We estimate that the ELN derives much less of its funding from narcotics activities, and it may be no accident that the ELN is the smallest and least-powerful of the three groups. There would appear to be a direct correlation between drug activity and organizational viability and reach in Colombia. Certainly the FARC's growth in numbers is

directly related to the increase in its involvement with illicit drug cultivation and exploitation.

Drug money facilitates terrorist operations such as the FARC car bombing in February of the Club El Nogal in Bogotá. As the FARC has expanded urban operations, they may also be reaching out to international terrorists for additional technical expertise. The ongoing trial of three alleged IRA operatives arrested in Colombia in 2001 is but one example.

Drug money finances attacks, such as the multiple-mortar attack on President Uribe's inauguration last August which killed 21 residents of a poor Bogotá neighborhood. And without drug money, FARC units would not be able to arm themselves and dominate the amount of territory in southern Colombia that they do, a region where three American citizen contractors are still being held hostage by FARC units after their plane's engine malfunctioned and they had to make an emergency landing on February 13.

The AUC is a loose and ever-shifting umbrella group of anti-guerilla forces, the majority of which engage in narcotics-related activities. The best-known AUC leader, Carlos Castano, stated in 2000 that "70 percent" of AUC operational funding was from drug money and described it as an undesired but necessary evil. AUC elements appear to be directly involved in processing cocaine and exporting cocaine from Colombia. In 2002, Castano dissolved the AUC and subsequently reformed it, claiming to have purged the elements more heavily involved in narcotics trafficking. Castano may be making a bid for political legitimacy through such action. Nevertheless, we note little change in AUC narcotics activities, and in September 2002, the U.S. Department of Justice indicted Castano on charges of drug trafficking.

The ELN - which has remained marginally more loyal to its Marxist roots than the FARC - expresses a disdain for illegal drugs, but still takes advantage of the profits available where it regulates and taxes coca production in areas it controls.

Andean-produced cocaine and heroin pass through Central America, the Caribbean and Mexico. Attacks on each link of this nefarious chain create ripples down the line.

For example, recent Mexican successes against drug cartels operating there should be considered positive blows in the global war on terror because they complicate the finances of terrorist groups operating in the Andes.

The situation in Afghanistan is also of note. We have ample evidence that the Taliban condoned and profited from the drug trade when it was in power. We also know that the Taliban has provided sanctuary to and received military assistance from terrorist groups in Afghanistan. Taliban taxes on opium harvests, heroin production, and drug shipments helped finance its military operations against rival factions. These taxes also bestowed legitimacy on Afghan drug traffickers. Since the Taliban were forced out of power, we have seen reports that they, and other groups seeking to undermine the regime of President Karzai, use drug trafficking to arm their militia and mount operations against the government, U.S. forces and international organizations in Afghanistan. The enormous profits gained through drug trafficking have been turned to strengthening warlords, corrupting local officials and fomenting terror and instability throughout the country.

Given the continued high price of opium in 2002 and 2003, there is evidence that stockpiles may have been depleted over the last year. The annual U.S. government estimate for opium poppy cultivation in Afghanistan shows an increase during the crop season in 2002 (approximately 30,750 hectares). Early reports indicate that planting of poppy during the fall of 2002 was substantial, making the potential 2003 harvest this spring large as well. However, once the UN Office on Drugs and Crime (UNODC) completes the annual opium poppy survey, we will have a better idea of the size of the 2003 crop.

Two other groups bear mentioning. The Peruvian terrorist group Shining Path continues to derive substantial income from providing security to Peruvian traffickers transporting drugs out of the main coca cultivation areas of Peru. Although outright acts of extreme violence against the civilian population have diminished over the years, Peruvian authorities believe that the Shining Path actively supports and foments the cocalero strikes and violence that have destroyed USG-supported Peruvian alternative development efforts in coca growing areas and set back both forced and voluntary eradication efforts. Additionally, based on unclassified

information, the lucrative narcotics trade in Afghanistan has been a source of funding for a fourth terrorist group, the Islamic Movement of Uzbekistan (IMU). Members of the IMU have been involved in the trafficking of Afghan narcotics through Central Asia.

COUNTERING THE FINANCIAL ASPECTS OF NARCOTERRORISM WITH TRAINING AND TECHNICAL ASSISTANCE

In addition to trying to curtail the flow of funds to terrorists from drug trafficking, the U.S. government also has initiated active programs to curb other sources of terrorist funding.

The connection between terrorists and narcotics trafficking can vary, but the methods and programs to attack the financial aspects of terrorists and international criminal organizations are similar.

By fostering and developing comprehensive anti-money laundering and counter-terrorist financing regimes, we empower our allies to detect, prevent, disrupt, prosecute and seize the financial assets that fuel terrorists and transnational criminals -- whether the source of those funds is narcotics, kidnappings, smuggling, diversion of charitable donations, or financial fraud schemes.

Just as it became apparent in the mid 1990's that the problem of money laundering was much broader than narcotics-related proceeds, we now recognize the close relationship between money laundering and terrorist financing. Indeed, in our most recent International Narcotics Control Strategy Report (INCSR), we define the differences and similarities between these two phenomena.

As the INCSR notes, as far as training and technical assistance is concerned, there is no appreciable difference between anti-money laundering and counter-terrorist financing assistance. In each case, the objectives and tools are the same: build and institutionalize comprehensive regimes to help counter money laundering and terrorist financing.

The basic building blocks are well understood. They start with having a firm legal foundation that criminalizes money laundering and terrorist financing, adheres to international standards, and provides investigators and

prosecutors with the necessary tools to use against sophisticated organizations -- whether they are criminal cartels or terrorist cells.

Assistance must also be given to the formal financial sector to prevent its abuse by criminal elements and terrorist organizations; concepts such as "know your customer" and the detection of suspicious transactions are important elements in countering money laundering and terrorist financing.

The creation and enhancement of Financial Intelligence Units, which collect, analyze and disseminate financial reports and intelligence domestically and internationally, serve as the linchpin of both anti-money laundering and counter-terrorist financing regimes.

Training investigators in financial investigations gives police and other authorities the ability to "follow the money" and take action whether the funds lead to criminal organizations, terrorist groups or both. This training includes new analytical techniques as well as methods for dealing with informal systems such as hawalas, alternative remittance systems and trade-based money laundering, all of which first came to the attention of the USG through narcotics-related money laundering investigations.

Finally training of prosecutors and judges in the complexities of money laundering, terrorist financing, asset blocking and forfeiture and as well as the new requirements under the Financial Action Task Force's (FATF) Eight Special Recommendations on Terrorist Financing and United Nations Security Council Resolution 1373 are critical if we are to starve narco-terrorist of their funding.

In order to address the training and technical assistance associated with multi-faceted demands of international anti-money laundering and counter-terrorist financing, and recognizing the close link between terrorism and crime, anti-money laundering and counter-terrorist financing, INL co-chairs with the Office of the Coordinator for Counterterrorism (S/CT) an interagency group with over 20 representatives from other agencies. This group prioritizes terrorist financing assistance and designs and implements sequenced training and technical assistance

programs designed to develop comprehensive anti-money laundering and counter-terrorist financing regimes.

Such coordinated efforts are critical since training and technical assistance to enhance the capacity of our partners in both anti-money laundering and counter-terrorist financing serves as an international early warning and interdiction system against financial threats from transnational organized crime, terrorist organizations and narco-terrorists who use the proceeds of crime to fund their operations.

DIPLOMACY TO RAISE STANDARDS, CLOSE GAPS AND SHARE BURDENS

In addition to helping developing countries build law enforcement and justice system capacity, we collaborate with developed countries and international organizations to strengthen international norms and standards to fight crime, close jurisdictional and enforcement gaps that terrorists and other criminals exploit, and share burdens. Multilateral approaches can sometimes generate better "buy-in" with assistance recipient and donor countries, provide a legal or political framework for governments needing to justify domestic legal changes, and allow the United States to affect outcomes in areas, such as Burma, where our direct influence is limited. Assistance or advice from international organizations (rather than directly from the United States) is often more palatable for countries with sovereignty concerns. Working with multilateral organizations also allows the United States to tap into deep pools of substantive or regional expertise.

INL works closely, for example, with countries taking the lead in re-establishing Afghan public security capabilities, including Germany on training and equipping the national police, Italy on developing and modernizing the judicial system, and the United Kingdom on creating mobile counter-drug forces. Working with several U.S. agencies, the State Department played a key role in expanding the scope of the 31-member-country FATF, the world's standard-setting body on money-laundering, to develop eight new recommendations on combating terrorist financing, including improved regulation of remittance systems and steps to prevent exploitation of charitable organizations. INL capitalized on this progress to add support to regional FATF-like organizations in the Caribbean, Asia/Pacific and elsewhere.

Since corruption is strongly correlated with drug trafficking, terrorism and other crime, and since it often undermines the political, social and economic development that would reduce those threats, INL has led in elevating the fight against corruption to the top tier of foreign policy objectives. For example, INL has provided diplomatic and financial support for United Nations negotiations expected to yield the first global convention against corruption. INL has provided experts and other assistance to help more than 60 countries implement anti-corruption commitments through mechanisms of the Organization of American States, Council of Europe, Stability Pact Anticorruption Initiative for Southeast Europe, Asian Anticorruption Initiative and other bodies. We will support follow-up to the third biennial Global Forum on Fighting Corruption, a U.S.-initiated process that South Korea will host in 2003. INL also supports diverse bilateral anti-corruption efforts, such as the Culture of Lawfulness program, which teaches schoolchildren in Mexico and elsewhere how corruption hurts their communities.

When the United States serves as President of the Group of Eight countries (G-8) in 2004, the State Department will use the U.S. chairmanship of the Crime (Lyon) and Counter-terrorism (Roma) Experts Groups to advance initiatives including increasing G-8 assistance for law enforcement and counter-terrorism capacity building. Other G-8 initiatives relevant to the overlap between fighting terrorism and other crime should include implementing an expected 2003 agreement on G-8 biometric identification standards for travel documents.

Mr. Chairman, I thank you again for this opportunity to speak to you today, and we look forward to taking questions from you and other members of the Committee.

###

**STATEMENT OF
ASSISTANT DIRECTOR STEVEN C. McCRAW
FEDERAL BUREAU OF INVESTIGATION
OFFICE OF INTELLIGENCE**

**BEFORE THE
SENATE JUDICIARY COMMITTEE
MAY 20, 2003**

Good morning Mr. Chairman and members of the Judiciary Committee. On behalf of the Federal Bureau of Investigation, I would like to express my gratitude for affording us the opportunity to speak with you on the important issue of international drug trafficking and terrorism, which you have appropriately labeled as "a dangerous mix."

Worldwide economic, political, social, and technological changes have resulted in a more dispersed, complex, asymmetric threat to our nation. Terrorists, criminals, and foreign intelligence collectors have significantly benefitted from these rapid changes, which have permanently shrunk the world. The result is a world that is more integrated with activities that are significantly less discrete. Terrorist acts, crime, and foreign intelligence activities are no longer distinct activities, but rather profound fluid enterprises that through their very existence have a reverberating impact on our national security. Terrorism and crime respect no borders and threaten civilized countries throughout the world.

Terrorism and crime are inextricably linked. International and Domestic Terrorism Organizations and their supporters engage in a myriad of crimes to fund and facilitate terrorist activities. These crimes include extortion, kidnaping, robbery, corruption, alien smuggling, document fraud, arms trafficking, cyber crime, white collar crime, smuggling of contraband, money laundering and certainly drug trafficking.

In framing the issue, the Committee astutely recognizes these links and the threat they present to the American people. That is why all aspects of the terrorist enterprise including funding and support must be attacked. The criminal nexus to terrorism including drug trafficking is why our local, state, and federal law enforcement partners throughout the U.S. and the world are essential to combating global terrorism. They constitute an army of dedicated professionals who bring tremendous resources and capabilities to the war on terrorism. In fact, the successes of the Joint Terrorism Task Forces are in large part to their unwavering commitment to the safety of our nation and its citizens.

Today's Committee meeting focuses on the ties of drug trafficking and international terrorism which is clearly a problem. Drug trafficking is a highly lucrative enterprise generating billions of dollars in profit that terrorist organizations can easily tap into. The ties between international terrorist organizations and drug trafficking varies greatly from organization to organization. For example, the Fuerzas Armadas Revolucionarias de Colombia (FARC), aka the Revolutionary Armed Forces of Colombia, is strongly tied to drug trafficking in Colombia. The objective of the FARC is to overthrow the established order in Colombia and replace it with a socialist dictatorship. In its attempts to destabilize the Government of Colombia, the FARC conducts bombings, extortions, selective assassinations, kidnappings, and armed confrontations with Colombian police and military forces. In an effort to finance its agenda, the FARC has conducted countless kidnappings for ransom of Colombian and foreign nationals, including the most recent kidnapping/capture of American citizens in Colombia. They have also forced businesses to pay "war taxes" in exchange for FARC protection. However, drug trafficking profits are the FARC's principal source of funding. Moreover, it appears much of their agenda is based upon protecting and exploiting drug trafficking operations in Colombia and the region.

Historically, Afghanistan has been a major source of heroin throughout the world. Recently, al-Qa'ida and Sunni extremists have been associated through a number of investigations with drug trafficking. We have observed elements of the Taliban shipping and selling illegal drugs

into the US. A recent joint FBI and DEA investigation resulted in the arrests of 16 Afghan and Pakistani subjects for involvement in a drug ring that was possibly linked to Al-Qa'ida and the Taliban. The investigation determined that heroin, grown and processed in Afghanistan and Pakistan, was being shipped to the U.S. Profits from the sale of the heroin were laundered through Afghan and Pakistani owned businesses and then sent back to associates of terrorist organizations. Criminal and financial links to the Taliban regime and their involvement with Al-Qa'ida were established. The subjects were also involved in a number of other criminal activities including document/mail fraud, operating an illegal money transmitting business, and other white collar crimes.

Historically, Hizballah's direct involvement in narcotics trafficking has been limited, and the group's leaders have condemned the drug trade on religious grounds. However, we have seen individuals with suspected Hizballah ties involved in drug related activities and we believe that funds from these activities eventually make their way to Hizballah coffers in Lebanon. The FBI has investigated and continues to investigate, efforts by individuals and entities associated with Hizballah to traffic illegal drugs in the U.S. Acts of terrorism attributed to Hizballah have little or no connection to narcotic issues. Rather, these acts were intended to further their political and terrorist agendas. Hizballah utilizes funds from drug trafficking as one of many methods to fund these agendas.

By way of example, the FBI conducted an investigation which employed an undercover operation to target Hizballah cells in the U.S. The investigation has focused on distinct, but related, criminal enterprises which have participated in a host of criminal activity from fraud schemes to drug trafficking to fund their activities and provide funds to the overall Hizballah organization. A number of the subjects have been indicted and the investigation is continuing.

The Al-Ittihad al-Islami, or AIAI, Somalia's largest militant Islamic organization, is suspected of smuggling an illegal narcotic leaf known as Khat ("cot") into the United States. Arrests and shipment seizures indicate a sharp increase in demand for the drug. Proceeds from East African Khat sales are likely remitted to Middle Eastern banks via Hawala network and

wire services. It is likely that these funds pass through the hands of suspected AIAI members and other persons with possible ties to terrorist groups.

The bottom line is that terrorists and terrorist groups will resort to any method or means to fund and facilitate their terrorist agendas. As state sponsorship of terrorism has come under greater international condemnation, the tremendous profit potential associated with drug trafficking make it an attractive from the perspective of terrorist groups. This is further evidence that the prospect of terrorist-related drug trafficking represents a continuing and significant threat to our national security.

Thank you for affording me the opportunity to speak to you today on this important topic, and I look forward to any questions that you may have. However, I would like to take this opportunity to thank you Mr. Chairman and all members of the committee, for the tremendous support you have provided to the FBI to effectively combat terrorism. I would also like to publicly thank the Drug Enforcement Administration and the thousands of local and state law enforcement agencies for their outstanding support to the FBI since the attacks on 9/11/2001.

Links Between International Drug Trafficking and Terrorism

Testimony of Raphael Perl
Specialist in International Affairs
Congressional Research Service
before the Senate Committee on the Judiciary hearing on
*"Narco-Terrorism: International Drug Trafficking and Terrorism -
A Dangerous Mix"*
May 20, 2003

Links Between International Drug Trafficking and Terrorism

Testimony of Raphael Perl
Specialist in International Affairs, Congressional Research Service
before the Senate Committee on the Judiciary, *Hearing on Narco-Terrorism:
International Drug Trafficking and Terrorism-A Dangerous Mix*,
May 20, 2003

Mr Chairman, and Members of the Committee, I thank you for the opportunity to represent the Congressional Research Service at today's hearing on this timely and important topic.

Although their objectives differ—with drug traffickers seeking profits and terrorists pursuing political aims, both thrive on instability. Instability provides the fertile ground for their ongoing operations and expansion.

The combined activities of drug trafficking and terrorist organizations pose an escalating danger to societies worldwide. Even in instances where groups do not actively work together, the synergy of their separate operations and shared efforts at destabilization pose an increasing threat. Whether by design, or happenstance, each group serves as a force multiplier for the other. Many experts view as imperative that these threats be addressed together, not separately.

Linkages between drug trafficking and terrorist groups have long been recognized, but the two threats were often treated as distinct and separate. To achieve their separate ends, both types of organization have sought to destabilize society: to neutralize law enforcement, subvert governmental effectiveness, foment divisions, accentuate class differences, and exploit the weak or opportunistic for their own purposes.

Today, law enforcement, intelligence, and national security analysts, while recognizing differences, also recognize the synergy. Terrorist organizations and drug trafficking organizations share many organizational and operational characteristics, and there is growing opinion that a multi-front, interdisciplinary approach is needed to combat both. Many issues related to drugs and terrorism cut across traditional federal agency jurisdictions and bureaucratic turf.

- Both types of networks operate globally and transnationally, benefitting from trends associated with globalization and an open, deregulated environment. Increasingly, we live in a multi-ethnic, globally-interconnected and seamless world. Both terrorists and drug traffickers seek to merge into unsuspecting -- or colluding -- ethnic communities, using a facade of respectability enhanced by manipulative generosity.

- Terrorists and drug traffickers thrive in countries and regions without effective government control. They seek weak, or failing states or localities in which to develop and implement operations.
- Both exploit porous U.S. borders and seek loopholes in U.S. immigration controls. Generally, they seek to take advantage of our open and trusting society.
- Terrorists and drug traffickers rely heavily on technology to network and avoid detection. Examples include: use of the internet, encryption, satellite and cell phones, GPS technology, surveillance and eavesdropping technology.
- Both types of organizations can change tactics and personnel overnight.
- Both rely on the services of the criminal underworld. They need forged documents, safe houses, and items such as stolen cars. They need guns, and they need to have their money laundered.
- Drug trafficking and terrorism bring violence to our cities. For them, violence is a means to an end.
- Both are long-term phenomena for which there are no quick fixes.
- Terrorists and traffickers indiscriminately target civilian populations, one with indiscriminate killings; the other with drugs.
- Finally, they target youth— either for recruitment into drug use or recruitment into terrorist cells. Both take advantage of a nation's vulnerability.

From a national security, intelligence, and law enforcement perspective, it is increasingly important to recognize and exploit the nexus between terrorist organizations and drug trafficking activity. At the same time it is important to recognize that we are dealing with two distinct and separate phenomena, linked mainly for convenience. To enhance U.S. counter-terror goals, a growing number of analysts suggest that targeting narco-activity for anti-terror objectives needs to be addressed carefully on an individual case-by-case basis. Attacking the narco-funding activities of some terror organizations may handicap the ability of a group to operate. On the other hand, in instances where drug trade revenue contributes minimally to an organization's finances, disruption of such funding may have little impact and might make it harder to track the group's more threatening activities.

The similarities between terrorist organizations and drug trafficking organizations are many, but differences are important as well. Narcotics traffickers profit from the global economic system and the freedoms it accords them. In short, narcotics traffickers have a stake in the system; they feed upon it; they need it.

Terrorists, on the other hand, often do not see themselves as part of the existing system and they do not see the system as benefitting them. Their goal is to destroy what they see as evil, or replace it through violence.

In the wake of the events of September 11th, the international community has placed emphasis on financing of terrorists groups, and has dramatically enhanced efforts to seize sources of terrorist funding. This has spawned renewed focus on the narcotics trade as a source of funding for such groups. When studying such shadowy networks, our best sources of information are the intelligence and law enforcement communities. Yet, intelligence information is not generally collected for use as evidence in a court of law, is not always reliable, and is often evaluated in terms of probability of reliability rather than absolute certainty.

According to U. S. Government law enforcement sources, analysis in May 2003 of information from data bases of the United States' law enforcement and intelligence community warrants a conclusion that six of the thirty-six organizations on the Department of State's Foreign Terrorist Organization list (FTO) have been linked to drug trafficking activity. Moreover, eight additional terror groups may be linked to drug activity. Much of this information can be abstracted from Drug Enforcement Administration (DEA) briefings to Congress and DEA testimony presented to Congress on narco-terrorism, issues posted on the DEA's website.

Combined, these 14 groups represent approximately one-third of the total number of designated groups on the Department of States' list of Foreign Terrorist Organizations.

Six terrorist-list organizations reportedly linked to drug activity include:

- **The National Liberation Army (ELN), the Revolutionary Armed Forces of Colombia (FARC), and the United Self Defense Forces (AUC)** All are organizations that reportedly benefit from the drug trade. Individuals from these organizations have been systematically involved in a full range of drug trafficking activities including cultivation, providing protection, processing, and distribution.
- **Hizballah.** The Syrian supported Lebanese-based radical Shi'a group is responsible for numerous anti-U.S. and anti-Jewish attacks, and many of its members are reportedly engaged in drug trafficking activity. In the case of Hizballah, drug trafficking is considered to be a major source of funding for a wide range of the organization's activities.
- **The Kurdistan Workers' Party (PKK).** The PKK is widely reported to be involved in the Balkan heroin trade, with activities ranging from brokering heroin deals between other parties, to controlling and owning laboratories and drug transshipment.
- Finally, **Aum Shinrikyo.** This Japanese based group was responsible for the March 1995, Tokyo, subway gas attack. According to intelligence data and media reports, Aum, at least in

the past, has reportedly produced crystal methamphetamine, as well as LSD, for use by its members and for sale to outsiders.

Eight additional groups may also be linked to drug activity, although U.S. law enforcement officials are unable to fully confirm their suspicions. These are: (1) the Abu Nidal Organization; (2) the Abu Sayyaf Group; (3) the Basque Fatherland and Liberty Organization (ETA); (4) Hammas; (5) the Islamic Movement of Uzbekistan (IMU); (6) the Liberation Tigers of Eelam (LTTE, or Tamil Tigers); (7) the Turkish-based Revolutionary Peoples Liberation Army; and (8) Sendero Luminoso (Shining Path, or SL).

One complex policy issue is the extent, if any, of Al Qaeda's involvement in the drug trade. Al Qaeda's political and economic links to the former Taliban regime which was known to be involved in the drug trade, are undisputed, and media reports suggesting Al Qaeda involvement in Afghanistan's lucrative heroin trade are plentiful. There are also unsubstantiated allegations of personal investment by Osama Bin Laden in the trade. However, allegations of drug trafficking by Al Qaeda have received little, if any, public mention by Administration officials.

Allegations of links between terrorist groups and illicit drug trafficking activity are nothing new. Reports of drug trafficking activity by members of the Palestine Liberation Organization (PLO) and Irish Republican Army (IRA) abounded when these groups were considered by many to be terrorist organizations. A report on PLO finances, prepared in the 1990's by the General Accounting Office (GAO), remains classified. In the case of the IRA, interest in the organization's alleged ties to drug trafficking groups was again sparked by the arrest in Bogota on August 11, 2001 of three men, two of whom are confirmed IRA members, on charges of giving weapons and explosive's training to members of the FARC.

In many instances, the links between drug trafficking and terrorist organizations are well documented. In some instances, "guns for drugs" connections have been reported. However, in the vast majority of such cases, links involve terror groups engaging in some aspect of the drug trade, often in places where areas exist beyond the effective control of government: Lebanon, the Balkans, Chechnya, Colombia, Peru, Burma, Afghanistan. The groups or organizations that often stood out were the FARC, the ELN, Sendero Luminoso, the Kosovo Liberation Army(KLA), and Chechen radical groups. Analysts have also pointed to Hizballah in the Bekaa Valley. In areas beyond the reach of government control and the rule of law, the line between the criminal world, the drug trafficking world, and the terrorist world, is becoming increasingly difficult to draw.

Historically, we have also seen many instances of strong connections between nation states that sponsor and support terrorist activity and those that support or condone drug trafficking activity. It is noteworthy that at least four of the seven states on the State Department's list of countries supporting terrorism have had at least some history of condoning or supporting drug trafficking: Syria, Iran, North Korea, and Cuba. Moreover, indications today strongly suggests that the Government of North Korea is involved in large scale drug production and trafficking of heroin and methamphetamine as a matter of state policy.

If links between terrorist and drug trafficking organizations-- the so called "guns for drugs" connection -- and (to a greater extent) terrorist involvement in the drug trade--the "drugs for money" connection--are well established and not new, then what is there that is new today?

There are at least three evolving developments of note.

- First, in today's deregulated and interconnected global economy, illegitimate activities appear to be expanding in scale, scope, and reach. The ability of illegitimate activities such as terrorism and drug trafficking to harm the United States population and to damage important U.S. interests may be expanding as well.
- Second, importantly, as overt state support of terrorism has decreased, it seems that drug trade income has become more important to terrorist organizations. Terrorist organizations need money to operate. But in today's interconnected world economy, state sponsors are not easy to come by. Few world leaders or nations today would risk global sanctions by openly funding Bin Laden's organization. No state exists today that would be likely to openly fund the FARC in Colombia. Increasingly, terrorist organizations must fund themselves, and the illicit drug trade serves as an attractive and highly lucrative source of income for them.
- Finally, of growing concern to many, is the enhanced threat level the combined forces of drug trafficking and terrorism pose to U.S. interests: to regional stability, to our national security and to the future of our youth.

The involvement by terrorist groups in narcotics trafficking activity presents both challenges and opportunities for policymakers.

One challenge for policymakers, yet to be resolved, is the issue of trade-offs when counter-terrorism priorities overshadow counter-drug agendas. Central to the debate are important strategic issues. When counter-narcotics activities are pursued largely for anti-terrorism reasons, to what degree do they obstruct terrorist groups? Could situations arise where giving priority to anti-terrorism goals detracts from the effectiveness of counter-drug efforts deemed important to the national interest?

A second challenge relates to the fact that not all drugs produced or trafficked by terrorist groups are destined for the United States. If our drug enforcement community increasingly focuses on interdicting drugs not destined for the United States as part of counter-terrorism efforts, how much does this reduce the resources available to keep foreign-source illicit drugs from reaching the streets of our cities?

A third policy challenge arises in regard to conflicting counter- terrorism and counter-drug priorities. In Afghanistan, for example, many of the warlords on whose support America relies in the war on terrorism are reportedly heavily involved in the heroin trade. Which priority, counter-drugs or counter-terrorism, should dominate? Whatever the decision, including the option of allocating partial resources based on

a flexible or inflexible standard, it is important that we are apprised of the potential consequences.

Many observers cite a fourth challenge as the need to reverse a long-standing erosion of America's ability to conduct diplomacy abroad, largely as a result of budgetary limitations. To combat drugs and terrorism, the United States may need to develop more contacts within the middle levels of host government societies. Such relationships of trust are seen as indispensable, but increasingly difficult to cultivate as diplomats find themselves spread thin by other work. Arguably, investing in diplomacy to help deal with these problems may well prove far less expensive in terms of money and human lives than use of military force and other preemptive measures.

These are some of the challenges we face. The new National Strategy for Combating Terrorism, released in February 2003 places law enforcement at the center of a long term integrated counter-terrorism strategy, paving the way for enhanced resources to support law enforcement operations. When terrorists engage in the drug trade, they become increasingly vulnerable to law enforcement activity worldwide. Moreover, when terrorists deal in drugs they must interact with members of the criminal underworld who are motivated by profit – and not bound by fervent ideology to a cause. This is an important vulnerability which the law enforcement and intelligence community can exploit.

The challenges posed to the United States and the world community by the combined threat of drug trafficking and terrorist groups are undeniably formidable. But with challenges come opportunities. Narcotics trafficking organizations and terrorist organizations share many similar characteristics and use many of the same criminal structures. If we effectively combat one, it helps battle the other. Measures such as a more transparent financial system that reduces money laundering, better control of borders including reducing immigration fraud and smuggling, and containment of rogue states and lawless areas are measures that directly impact on the operations of both types of organizations.

An effective campaign against these combined threats may indeed make the world safer and more secure. By accordng recognition and policy focus to the combined threat of drug trafficking and terrorism, we may be better able to devise cohesive strategies to deal with these threats in an effective and holistic manner.

Mr. Chairman, this concludes my formal remarks, and I welcome your questions and comments. Thank you.