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## Illicit Fentanyl from China: An Evolving Global Operation

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### Key Findings

- **China remains the primary country of origin for illicit fentanyl and fentanyl-related substances trafficked into the United States:** In 2019, China fulfilled a pledge to the United States and placed all forms of fentanyl and its analogues on a regulatory schedule. Nevertheless, illicit fentanyl from China remains widely available in the United States. Chinese traffickers are using various strategies to circumvent new regulations, including focusing on chemical precursors, relocating some manufacturing to India, rerouting precursor shipments through third countries, and leveraging marketing schemes to avoid detection. China's weak supervision and regulation of its chemical and pharmaceutical industry also enable evasion and circumvention.
- **Since China's government scheduled fentanyl, the amount of finished fentanyl shipped directly from China to the United States has declined, while the amount shipped from Mexico has increased:** The U.S. Drug Enforcement Administration (DEA) assesses Chinese traffickers have shifted from primarily manufacturing finished fentanyl to primarily exporting precursors to Mexican cartels, who manufacture illicit fentanyl and deliver the final product. U.S. law enforcement has seen a growing trend of Chinese nationals, in both Mexico and the United States, working with Mexican cartels. As Chinese suppliers coordinate more with international partners, the DEA is concerned that fentanyl production is becoming increasingly global and more difficult to track and control.
- **Chinese brokers are laundering Mexican drug money through China's financial system:** Chinese money launderers are using financial technology, mobile banking apps, and social media to evade authorities.
- **Cooperation between the United States and China remains limited:** U.S. law enforcement agencies have established working groups, conducted high-level meetings, and shared information with their Chinese counterparts, which has led to the dismantling of a few illicit fentanyl networks. At the same time, U.S. authorities are reporting that cooperation remains limited on the ground. The Chinese government has cooperated less with U.S. authorities on criminal and money laundering investigations, conducting joint operations, and U.S. requests for inspections and law enforcement assistance.

### Overview of Chinese Fentanyl Flows to the United States

According to the U.S. Centers for Disease Control and Prevention (CDC), synthetic opioids—primarily illicit fentanyl—remain the largest cause of overdose deaths in the United States.<sup>1</sup> The CDC estimates that in the United States, there were more than 93,000 drug overdose deaths in 2020, of which an estimated 69,710 were opioid

overdoses. This is a more than 30 percent increase from the 50,963 opioid overdoses in 2019.<sup>\*2</sup> Stay-home orders, disruption of normal routines, economic hardships, and other stressors related to the novel coronavirus (COVID-19) pandemic contributed to the rise in abuse of illicit opioids in the United States in 2020,<sup>3</sup> despite the increased price of street fentanyl.

In its *2020 National Drug Threat Assessment* report, the DEA assessed that China was “the primary source of fentanyl and fentanyl-related substances trafficked through international mail and express consignment operations, as well as the main source for all fentanyl-related substances trafficked into the United States.”<sup>4</sup> Fentanyl is trafficked into the United States by two primary methods: (1) sent from Chinese suppliers via international mail or express consignment services, such as UPS, FedEx, or DHL; and (2) smuggled across the U.S.-Mexican border.

- *International mail:* According to U.S. seizure data, finished fentanyl and related analogues were often mailed from China in parcel packages. Fentanyl shipped this way tends to be above 90 percent purity and is shipped in packages weighing less than 1 kilogram, or 2.2 pounds.<sup>5</sup> According to U.S. Customs and Border Protection (CBP), only 11.58 pounds of fentanyl was seized in direct shipment from China in the first eight months of 2019 compared to 278 pounds in 2018.<sup>6</sup>
- *U.S.-Mexico border:* According to Thomas Overacker, executive director of the CBP Office of Field Operations, “Most of the illicit fentanyl entering our country by weight does so at ports of entry (POEs) along our southwest border by private vehicles, pedestrian, and commercial vehicles.”<sup>7</sup> In 2019, CBP seized more than 2,660 pounds of illicit fentanyl from Mexico compared to 1,500 pounds in 2018.<sup>8</sup> The Mexican government reported that seizures of illicit fentanyl at clandestine labs and ports increased six-fold in 2020, suggesting Mexico is accounting for a greater share of the fentanyl trafficked directly into the United States even though the precursor chemicals originate in China.<sup>9</sup> Reflecting on the impact of the Chinese government’s decision to schedule fentanyl, in 2021 the DEA noted that Mexican cartels, “will remain the primary source of supply for heroin and [finished] fentanyl smuggled into the United States, using precursors primarily sourced from China.”<sup>10</sup>

## Major Developments since 2018

In November 2018, the Commission published a staff report, *Fentanyl Flows from China: An Update since 2017*.<sup>‡</sup> Since the report’s publication, there have been several significant developments:

- *China scheduled fentanyl:* At the December 2018 G20 Summit in Argentina, General Secretary of the Chinese Communist Party Xi Jinping made a commitment to then President Donald Trump that China would schedule or control fentanyl.<sup>11</sup> As a result of U.S.-China counternarcotic negotiations, in April 2019 China’s Ministry of Public Security, National Health Commission, and State Drug Administration jointly announced that all fentanyl and analogues would be placed on the *Supplementary List of Non-medicinal Narcotic Drugs and Psychotropics Drugs*, effectively controlling all types of fentanyl unless given a special permit.<sup>12</sup> The DEA confirmed the controls went into effect in May 2019.<sup>13</sup> According to David Prince, deputy assistant director of transnational organized crime at U.S. Immigration and Customs Enforcement (ICE), China’s scheduling has led to a decline in the number of Chinese manufacturers “willing to sell/export [finished] fentanyl products.”<sup>14</sup>

\* The CDC also continues to update its numbers as new data are made available. According to the CDC, overdose deaths were already increasing in 2019 but further accelerated during the COVID-19 pandemic as a result of the “disruption to daily life due to the COVID-19 pandemic [which] has hit those with substance use disorder hard.” Although widely abused, fentanyl is also prescribed legally by medical professionals for pain relief. As a result of the COVID-19 pandemic, opioid and licit fentanyl used to treat patients increased as well. U.S. Centers for Disease Control, *Overdose Deaths Accelerated during COVID-19*, December 17, 2020. <https://www.cdc.gov/media/releases/2020/p1218-overdose-deaths-covid-19.html>.

† The DEA assesses that fentanyl of such purity is produced by chemical companies in China, in contrast to fentanyl from Mexico, which has a purity below 10 percent and is often mixed with other illicit drugs (e.g., heroin, cocaine, and methamphetamines). U.S. Drug Enforcement Administration, *2018 National Drug Threat Assessment*, March 2019. <https://www.dea.gov/sites/default/files/2018-11/DIR-032-18%202018%20NDTA%20final%20low%20resolution.pdf>; U.S. Drug Enforcement Administration, *2020 National Drug Threat Assessment*, March 2021. [https://www.dea.gov/sites/default/files/2020-03/DEA\\_GOV\\_DIR-008-20%20Fentanyl%20Flow%20in%20the%20United%20States\\_0.pdf](https://www.dea.gov/sites/default/files/2020-03/DEA_GOV_DIR-008-20%20Fentanyl%20Flow%20in%20the%20United%20States_0.pdf).

‡ See Sean O’Connor, “Fentanyl Flows from China: An Update since 2017,” *U.S.-China Economic Security and Review Commission*, November 26, 2018. <https://www.uscc.gov/sites/default/files/Research/Fentanyl%20Flows%20from%20China.pdf>.

- *U.S. increased efforts to stem illicit flows:* U.S. enforcement agencies have stepped up enforcement against Chinese drug traffickers. For example, since 2017 the U.S. Department of the Treasury’s Office of Foreign Asset Control (OFAC) has designated at least 14 Chinese nationals and six Chinese entities on the Foreign Narcotics Kingpin Designation list under the Kingpin Act, a significant increase from the 2000–2016 period, when only five Chinese nationals and two entities were designated.<sup>15</sup> Additionally, the U.S. Department of Justice (DOJ) has indicted at least 11 Chinese nationals on money laundering and drug trafficking charges and convicted at least three Chinese nationals of drug-related crimes.<sup>16</sup>
- *Illegal drug traffickers in China began to adjust their operations:* Although the Chinese government has scheduled some precursor chemicals, drug producers can still access critical precursor ingredients from China and manufacture new fentanyl analogues to avoid Chinese law enforcement.<sup>17</sup>

<b>Key Terms</b>
<b>Synthetic opioids:</b> Substances produced in a laboratory using the same chemical structure (synthetic) as natural opioids, which are a class of drugs extracted from the opium poppy plant.
<b>Fentanyl (licit):</b> A potent synthetic opioid approved by the FDA for pain relief, often for cancer patients, and as an anesthetic. It is approximately 100 times more potent than morphine and 50 times more potent than heroin. Fentanyl pharmaceutical products are available in lozenges, tablets, nasal sprays, skin patches, and injectable formulations.
<b>Fentanyl (illicit):</b> Fentanyl produced and sold illegally and typically found in powder or pill form, sometimes mimicking pharmaceutical drugs such as oxycodone.
<b>Drug schedules:</b> Drugs, substances, and certain chemicals used to make drugs are classified into five distinct categories or schedules depending upon the drug’s acceptable medical use and the drug’s abuse or dependency potential. Schedule I drugs represent the greatest potential for abuse. Fentanyl is a Schedule II narcotic under the U.S. Controlled Substances Act of 1970.
<b>Controlled substance:</b> A drug or other substance that is tightly controlled by the government because it may be easily abused or cause addiction. The government “control” manages how the substance must be made, handled, used, stored, and distributed.
<b>Analogues:</b> A drug that has been designed to mimic the pharmacological effects of the original drug and in some cases is produced to avoid government controls. Some Fentanyl analogues include acetylfentanyl, furanylfentanyl, carfentanil, which are all similar in chemical structure to fentanyl.
<b>Precursor chemicals:</b> Also known as “precursors,” these are substances used in manufacturing of other products. Fentanyl precursors, like ANPP, NPP, or 4-AP, are used to produce fentanyl and more easily evade authorities. Many precursors can be used to make both licit and illicit drugs.

Source: Various.<sup>18</sup>

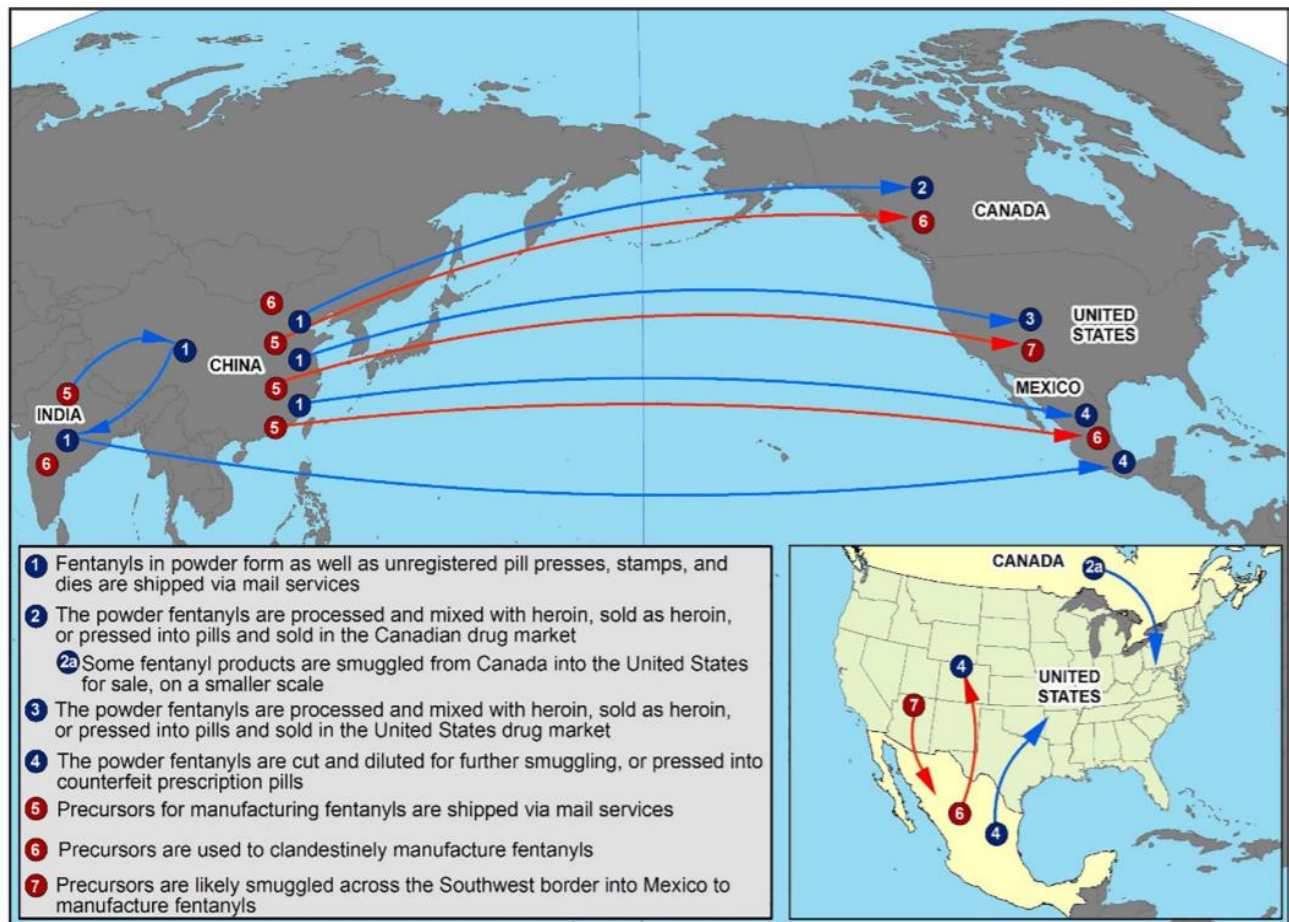
## Chinese Illicit Fentanyl Producers Evade Authorities

China’s May 2019 fentanyl scheduling announcement has changed the way illicit vendors operate as Chinese authorities have ramped up investigations of known manufacturing sites, cracked down on websites selling illicit fentanyl, begun to enforce shipping rules, and created special investigation teams.<sup>\*19</sup> In response, Chinese illegal

\* As noted in the Commission’s 2017 fentanyl report, “the chemicals used to produce fentanyl and fentanyl-like products are illegally diverted from legitimate pharmaceutical uses, with criminals taking advantage of inadequate enforcement protocols to produce unregulated chemicals.” This makes it particularly challenging to identify which manufacturing sites are solely used for legal production and which

fentanyl producers began seeking new ways to evade authorities, including developing new fentanyl precursors, working with traffickers in other countries, and using technology to avoid detection. According to a 2020 DEA report, *Fentanyl Flow to the United States*, fentanyl production is becoming a global operation (see Figure 1), which has exacerbated illicit trafficking to the United States by introducing additional countries into the supply chain.<sup>20</sup> While the 2019 scheduling announcement brought heightened scrutiny to illicit fentanyl production, China’s regulation and enforcement of its vast chemical and pharmaceutical industries remain weak. In his testimony before the Commission in 2019, Ben Westhoff highlighted how “China’s clumsy, understaffed bureaucracy has a difficult time controlling the country’s chemical industry. Different layers of government are sometimes at odds with one another, local officials are corruptible, and industry regulations are confusing and poorly enforced.”<sup>21</sup> Without effective regulation of China’s chemical and pharmaceutical industries, illicit fentanyl manufacturers have an easier time operating.

**Figure 1: Fentanyl Flows to the United States, 2019**



Source: U.S. Drug Enforcement Administration, *Fentanyl Flow to the United States*, January 2020.

**New Fentanyl Precursors:** In January 2018, China added two fentanyl precursors, NPP and 4-ANPP, to the controlled substance list. U.S. and Mexican authorities reported a decline in seizures immediately following China’s 2019 scheduling of fentanyl, but traffickers quickly adjusted, by developing alternative precursors that are not scheduled. As reported by the U.S. Department of State, Chinese traffickers have shifted to alternative precursor chemicals like 4-AP (see Appendix, Table 1).<sup>22</sup> According to the Center for Advanced Defense Studies (C4ADS), since the 2019 scheduling of all fentanyl, Chinese producers have developed at least four more precursor substitutes,

sites are dual-use. U.S.-China Economic and Security Review Commission, *Fentanyl: China’s Deadly Export to the United States*, February 1, 2017, <https://www.uscc.gov/research/fentanyl-chinas-deadly-export-united-states>.



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which contribute to evading detection.<sup>23</sup> Marketing on the internet for these four substitutes has become increasingly common.<sup>24</sup> The Chinese government has yet to ban these four precursors.<sup>25</sup>

The State Department dubbed China's precursor substitutes "indirect precursors" or "pre-precursors."<sup>26</sup> Bryce Pardo, an associate policy researcher at RAND Corporation, said this shift may set a worrisome precedent as traffickers are exporting the pre-precursors to Mexico, where they are subsequently made into finished fentanyl.<sup>27</sup> The DEA's *2020 Drug Threat Assessment Report* also expresses concern that Chinese chemists are increasingly focused on precursors to precursors, many of which have legitimate uses and are therefore hard to regulate.<sup>28</sup>

**Potential Production Shifts to India and Other Third Countries:** In 2020, the DEA noted that India has begun to emerge as a more prominent source country for Mexican drug trafficking organizations and that this trend could accelerate "if China-based traffickers work with Indian nationals to circumvent China's new controls on fentanyl."<sup>29</sup> U.S. law enforcement is also concerned that Southeast Asia's "Golden Triangle" could become the next fentanyl hotspot after India.<sup>30</sup> The region is also known to have limited drug enforcement and regulation and is already a major source for methamphetamines and other drugs.<sup>31</sup>

**Technological and Digital Evasion Methods:** Traffickers continue to use the internet and technology to conceal their illicit activities, and their methods have become increasingly more sophisticated. To avoid scrutiny and detection, some Chinese sellers have used the numerical code, scientific names, and technical nomenclature of fentanyl and related precursors in their advertisements on websites, social media, and e-commerce platforms.<sup>32</sup> The complexity and abstract nature of chemical nomenclature and classification systems, rather than the more recognizable terminology, makes it harder for law enforcement to track illicit fentanyl advertising online.<sup>33</sup> This method also allows the sellers to create many different naming combinations for marketing, further outpacing U.S. and Chinese authorities. C4ADS reported that various drug groups operating online are using password-encrypted websites and private groups on social media and messaging apps to operate platforms or virtual marketplaces that connect illicit fentanyl consumers and sellers while avoiding detection by U.S. and Chinese law enforcement.<sup>34</sup> To reduce potential public exposure, many of these websites and groups have deployed web moderators who serve as gatekeepers to ensure only trusted individuals have access.<sup>35</sup>

## Chinese Traffickers Increase Cooperation with Mexican Cartels

Mexican cartels have historically been involved in the production of poppies in Mexico that are used to make heroin.<sup>36</sup> With Mexican anti-drug authorities ramping up the destruction of poppy fields across the country, however, the cartels have shifted from heroin to synthetic opioids like fentanyl, which are cheaper to make and more profitable.<sup>37</sup> As Chinese traffickers sought to evade the Chinese government's increased regulation in 2019, Mexican cartels looked to maximize their role in the illicit fentanyl trade.

The China-Mexico connection grew when Chinese traffickers increased fentanyl precursor sales to Mexican cartels.<sup>38</sup> Speaking in March 2021, Matthew Donahue, the deputy chief of foreign operations for the DEA, described "an unlimited and endless supply of precursor chemicals ... coming from China to Mexico," noting that Chinese traffickers have virtually ceased making analogues to focus solely on precursors.<sup>39</sup> Mexican officials have worked with the DEA to dismantle established networks of manufacturing plants, or "pill mills," in Mexico City, Mexicali, and other places controlled by the Sinaloa cartel and the Jalisco Nueva Generacion (Jalisco New Generation) cartel.<sup>‡</sup>

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\*According to the DEA's *2020 National Drug Threat Assessment Report*, "Although 4-AP is not a direct replacement for 4-anilino-N-phenethylpiperidine (4-ANPP) in the synthesis of fentanyl, 4-AP can be converted into 4-ANPP in a one-step chemical reaction." Only direct replacements are considered precursors, but experts colloquially refer to 4-AP as a precursor due to its ability to synthesize 4-ANPP. U.S. Drug Enforcement Administration, *2020 National Drug Threat Assessment Report*, March 2021, [https://www.dea.gov/sites/default/files/2020-03/DEA\\_GOV\\_DIR-008-20%20Fentanyl%20Flow%20in%20the%20United%20States\\_0.pdf](https://www.dea.gov/sites/default/files/2020-03/DEA_GOV_DIR-008-20%20Fentanyl%20Flow%20in%20the%20United%20States_0.pdf).

† The name "Golden Triangle" refers to the region where the borders of Burma, Laos, and Thailand meet. Historically, it is known for its opium cultivation. <https://www.reuters.com/article/us-asia-drugs/asian-drug-lords-likely-producing-precursor-chemicals-in-golden-triangle-idUSKBN2AC0KF>.

‡ The DEA noted in an interview with the Commission that in addition to supplying vast amounts of precursor chemicals, Chinese traffickers are also shipping large-scale "industrial sized pill presses" to Mexico. Mexican cartels then press loose fentanyl power into pills. U.S. Drug Enforcement Administration, interview with Commission staff, March 15, 2021.

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<sup>40</sup> These pill mills in Mexico made finished fentanyl from Chinese-sourced precursors to traffic across the U.S.-Mexico border into the United States.<sup>41</sup>

The Sinaloa and Jalisco cartels are the main entities responsible for manufacturing precursor chemicals into finished fentanyl and smuggling it into the United States.<sup>42</sup> The Sinaloa cartel has developed relationships with suppliers in China and India to purchase precursor chemicals or, in some cases, finished fentanyl powder.<sup>43</sup> Fentanyl and precursors are shipped from China to many ports of entry across Mexico's Pacific coastline, such as Lazaro Cardenas in Michoacán, Manzanillo in Colima, and Ensenada in Baja California.<sup>44</sup> Chinese nationals implicated in trafficking have also been known to travel to Mexico.<sup>45</sup>

A November 2020 investigation by Fox News highlighted an emerging trend of Chinese nationals involved in illicit fentanyl operations in Mexico.<sup>46</sup> The investigation focused on the Zheng DTO (Drug Trafficking Organization), colloquially known as “Los Zheng Cartel,” which operates through multiple shell companies that seemingly offer legitimate services such as chemical labs, veterinary care, computers, and retail. Intelligence professionals in Mexico have described the Zheng cartel as having “the largest presence in Mexico for trafficking fentanyl and methamphetamines.”<sup>47</sup> The Zheng cartel has developed extensive relationships with suppliers in China, can easily import goods from China into Mexico, and has cultivated relationships on both sides of the U.S.-Mexico border.<sup>48</sup> According to media reporting, the Zheng cartel is suspected of having ties to both the Sinaloa and Jalisco cartels.<sup>49</sup> Effectively, the Zheng cartel serves as an intermediary between suppliers in China and cartels in Mexico.

In 2018, the U.S. Attorney's Office in Cleveland indicted two Zheng cartel leaders on 43 counts of manufacturing and shipping fentanyl analogues and 250 other drugs to 37 states and 25 countries.<sup>50</sup> According to the indictment, since 2008 the Zheng cartel has “engaged in this conspiracy from its base of operations in Shanghai.”<sup>51</sup> In August 2019, the Treasury Department designated Fujing Zheng, a Chinese national who leads the Zheng cartel, his father Guanghua Zheng, and the Zheng cartel under the Kingpin Act.<sup>52</sup> Additionally, in July 2020 the Treasury Department added four Chinese nationals to the Kingpin list for their links to the Zheng cartel and fentanyl trafficking; it also designated one company, Global United Biotechnology Inc., saying it was “a virtual storefront of Zheng DTO” through its use of digital currency to launder illegal drug money.<sup>53</sup> Despite the designations and indictments, as of January 2021 the Zhengs and their associates remain at large and continue operating in both China and Mexico.<sup>54</sup> Chinese fentanyl traffickers have survived challenges like China's 2019 scheduling of fentanyl and COVID-19 because of their vast networks inside of Mexico and the United States. Cartels like Los Zheng rely on coconspirators in the United States, Mexico, and elsewhere to retrieve, package, and distribute their shipments.

Separate from the Zheng cartel, individuals and groups of Chinese “chemical brokers” are also operating in Mexico.<sup>55</sup> According to the DEA, these chemical brokers are active in the state of Sinaloa, especially the capital of Culiacan, where an estimated 2,000 Chinese nationals are working to facilitate and coordinate the importation of precursor chemicals.<sup>56</sup>

## Chinese Money Laundering in Mexico: A Transnational Web

In February 2020, the U.S. Department of the Treasury described Chinese money launderers as “key threats” and vulnerabilities in the U.S. financial system.<sup>57</sup> A December 2020 Reuters investigation found Chinese money launderers “have come to dominate the international money laundering market.”<sup>58</sup> The DEA reports having also seen Chinese money launderers working with drug trafficking organizations in the Dominican Republic and Colombia.<sup>59</sup>

In a high-profile case that shed light on the intersection of financial technology and drug trafficking, Xianbing Gan, a Chinese national based in Chicago, was arrested by U.S. authorities in November 2018 on suspicion of money laundering for a cartel. In March 2020, Gan was convicted on money laundering charges.<sup>60</sup> In addition to the Gan case, in October 2019 U.S. attorneys in Oregon charged Shefeng Su, Xinhua Li Yan, and Xiancong Su with money laundering.<sup>61</sup> In September 2020, Xueyong Wu was convicted in the U.S. District Court Eastern District of Virginia in Richmond and sentenced to five years in prison for laundering money for a Mexican drug cartel.<sup>62</sup> It is difficult to know exactly how much money Chinese nationals have laundered for cartels, but in the Gan case alone, the Department of Homeland Security (DHS) estimated his operation laundered between \$25 million and \$65 million.<sup>63</sup>

- *Customs and Border Protection:* During testimony to the Homeland Security Subcommittee on Investigations on “Combating the Opioid Crisis” in December 2020, CBP Director Overacker said “CBP now regularly shares targeting information with the China Ministry of Public Security (MPS) and the General Administration of China Customs.”<sup>80</sup> He also said CBP has initiated a series of “regular meetings between the CBP attaché in Beijing and the China Ministry of Public Security.”<sup>81</sup>
- *Drug Enforcement Administration:* During a July 2019 hearing on “Oversight of Federal Efforts to Combat Illicit Fentanyl” before the House Energy and Commerce Committee, Matthew Donahue, then the regional director of the North and Central Americas Operation Division at the DEA, said, “The DEA is committed to working with China in well-established bilateral efforts: liaison presence, the Counter Narcotics Working Group, regular meetings with scientists; and enhancing collaboration with DEA interagency partners.”<sup>82</sup> In Congressional testimony, Mr. Donahue said he was encouraged by China’s 2019 fentanyl scheduling and its potential to “prevent chemical workarounds to be exploited by clandestine synthetic opioid producers in China by allowing the United States and China to cooperate on a broader range of cases.”<sup>83</sup> The DEA currently has an office in Beijing, and in 2020 China’s government approved the DEA’s request to establish satellite offices in Shanghai and Guangzhou.<sup>84</sup>
- *Immigration and Customs Enforcement:* At the same July 2019 hearing, ICE Deputy Assistant Director Prince noted collaborative efforts by ICE and DHS with China regarding information sharing on “certified lab reports” and “shipping labels” and how these efforts led China to control all fentanyl variants and analogues in May 2019.<sup>85</sup>

Despite these positive trends, there remain significant gaps in U.S.-China antidrug cooperation, especially in enforcement and criminal prosecution. For example, the DEA reported it informally asked its Chinese counterparts for assistance with the Gan investigation but did not receive Chinese support despite multiple requests.<sup>86</sup> When asked by Reuters about the lack of cooperation in the Gan case, China’s Foreign Ministry first deflected the question and accused the United States of not requesting support, and later claimed the bank account holders U.S. investigators inquired about were “legitimate enterprises and business holders” in China.<sup>87</sup> Retired DEA agent Jeffrey Higgins noted in 2018 that he felt “China is merely seeking to create the appearance of cooperating with U.S. officials, while not enacting any reforms.”<sup>88</sup> Other retired U.S. law enforcement personnel echoed this sentiment. In an interview with online investigative reporting project SpyTalk, former DEA agents anonymously expressed frustration about the lack cooperation from China despite the DEA publicly touting Chinese cooperation efforts.<sup>89</sup>

The State Department reported in the *2020 International Narcotic Control Strategy Report (INCSR) on Money Laundering* that “China has not cooperated sufficiently on financial investigations and does not provide adequate responses to requests for financial investigation information.”<sup>90</sup> ICE Deputy Assistant Director Prince also described China as “recalcitrant” in ICE’s conspiracy and cryptocurrency investigations, echoing the findings in the State Department’s report.<sup>91</sup> In a rare admission, in September 2019 the People’s Republic of China’s Office of China National Narcotic Control Commission said U.S.-China cooperation on investigating and prosecuting fentanyl remains “extremely limited.”<sup>92</sup>

The United States, along with 40 other countries, is a signatory to a mutual legal assistance treaty that “allow[s] for the general exchange of evidence and information in criminal and related matters.”<sup>93</sup> The United States and China also signed a mutual legal assistance treaty in June 2000.<sup>94</sup> As a signatory, China is required to comply with U.S. requests for legal assistance. According to the State Department, however, “Many outstanding requests by both the United States and China remain unfulfilled,” further hindering U.S.-China cooperation efforts.<sup>95</sup>

U.S. law enforcement has noted that China’s relatively limited cooperation with the United States on curbing fentanyl stands in notable contrast to China’s cooperation with Australia on methamphetamines.<sup>96</sup> In 2017, Australia was the only Western country to have a joint task force with China’s National Narcotics Control Bureau.<sup>97</sup> This

\* The DEA noted that the field office in Shanghai is expected to improve anti-money laundering investigations, while the field office in Guangzhou is expected to work with China to stem the flow of precursors. Guangzhou is the capital of Guangdong Province, a major chemical hub in China. Official, U.S. Drug Enforcement Administration, interview with Commission staff, March 15, 2021.

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cooperation led to multiple convictions and drug seizures in Australia, including the 2017 seizure of almost 2,000 pounds of crystal meth, the largest seizure of drugs in Australia's history.<sup>98</sup>

## Conclusions and Considerations for Congress

The fentanyl challenge has grown in complexity since Chinese suppliers began to evolve their tactics in 2019. Drug producers and smugglers in China are becoming more sophisticated in evading Chinese and U.S. authorities, and the growing involvement of Mexican cartels and advanced money laundering schemes have exacerbated the problem. Law enforcement agencies are struggling to keep pace with a rapidly changing illicit drug environment. As Chinese fentanyl networks diffuse and seek alternatives to China as a source for precursor chemicals, U.S. authorities will have to develop solutions that reflect the more globalized nature of the supply chains. Enforcement can no longer be approached unilaterally or even bilaterally because fentanyl traffickers are operating transnationally. This presents a potential opportunity for the United States to work with other countries on counternarcotic enforcement.

**Multilateral Cooperation:** Abuse of illegally sourced fentanyl is not a problem for the United States alone. Fentanyl is also being shipped to Canada, Europe, and other destinations via online direct-to-consumer websites and postal delivery. As in the United States, China remains a primary source of illicit fentanyl in Canada, where opioid usage has increased since the start of the COVID-19 pandemic.<sup>99</sup> According to the DEA, fentanyl powder is shipped from China to Canada and sold there or smuggled into the United States.<sup>100</sup> Europe is also a growing market for illicit Chinese-sourced fentanyl, although not nearly on the same level as North America.<sup>101</sup>

Both China and Mexico are signatories to the 1988 UN Drug Convention. At the urging of the United States, in October 2017 the UN required all parties who are signatories to the convention to schedule 4-ANPP and NPP, two popular fentanyl precursors.<sup>102</sup> In January 2018, China scheduled the two precursors. Another key precursor, 4-AP, has no legitimate uses but has not been listed in the UN's schedules; currently, only the United States has scheduled 4-AP and has been urging China to do so as well. Historically, a multilateral approach through international bodies has proven to be effective in pressuring China to introduce additional restrictions on fentanyl.

**Joint Operations:** In contrast to limited U.S.-China cooperation, the United States and India have achieved a degree of joint operational successes in combating trafficking. For example, in 2017 U.S. and Indian authorities cooperated in an operation leading to the seizure of over one billion tablets of illegally trafficked tramadol, a type of synthetic opioid.<sup>103</sup> In Operation Broadsword in January 2020, the U.S. Food and Drug Administration, CBP, and the Office of Criminal Investigations in India jointly targeted and inspected 800 shipments entering the United States through the international mail facility. These shipments "had been transshipped through third party countries to conceal their place of origin," and many contained counterfeit and illegal opioid drugs.<sup>104</sup> The operations ultimately stopped millions of counterfeit and illegal opioids.<sup>105</sup> The United States and China have yet to conduct similar coordination.

**Congressional Role:** Digital tools and advanced money laundering techniques are increasingly being used by traffickers. Enforcement on these digital platforms remains highly challenging for U.S. authorities. According to the 2020 Reuters investigative report, when asked about these new advanced forms of money laundering, a source familiar with these operations said, "It is the most sophisticated form of money laundering that's ever existed."<sup>106</sup> Even though traffickers' growing arsenal of tactics presents a unique and complex challenge, Congress could play a significant role in countering these new avenues of illicit transactions. The 2021 National Defense Authorization Act directed the Treasury Department to conduct a comprehensive report to Congress on the illicit financing and money laundering risk posed by Chinese bad actors and to assess the role of Chinese regulations in permitting such risk.<sup>107</sup> The findings from the report are likely to shed more light on this complex means of money laundering and may provide insights into opportunities for future Congressional action.



## Appendix

**Table 1: Popular Known Fentanyl Precursors China Has Not Banned**

<b>Masked substitutes:</b> Chemically altered precursor substitutes meant to escape detection, but can easily be transformed into a controlled fentanyl precursor	<ul style="list-style-type: none"> <li>• 4-AP</li> <li>• 4,4-PIPERIDINEDIOL</li> </ul>
<b>Unmasked substitutes:</b> Are not chemically altered precursors	<ul style="list-style-type: none"> <li>• 1-BOC-4ANPP</li> <li>• 1-BOC-4-PIPERIDONE</li> </ul>

Source: C4ADS, “Lethal Exchanges: Synthetic Drug Networks in the Digital Era,” November 17, 2020. <https://www.c4reports.org/lethal-exchange>.

**Table 2: How Chinese Brokers Launder Money for Mexican Cartels**

<b>Step One</b>	A Mexican cartel wants to bring proceeds from U.S. drug sales back to Mexico. It contacts Chinese money brokers operating in Mexico to see who offers the cheapest rates.
<b>Step Two</b>	The parties agree on a commission and the amount to be laundered, say \$150,000.
<b>Step Three</b>	Using encrypted phone messages, the Chinese broker sends the cartel member: <ol style="list-style-type: none"> <li>1) A code word;</li> <li>2) A number from a U.S. burner phone; and</li> <li>3) A unique serial number from a \$1 bill</li> </ol>
<b>Step Four</b>	The Mexican cartel shares those details with a cartel-linked drug dealer in the United States, who calls the burner phone and identifies himself using the code word. He arranges to meet a U.S.-based money courier working for the Chinese broker.
<b>Step Five</b>	The drug dealer and the money courier meet in public somewhere in the United States. The courier hands over a \$1 bill with the unique serial number. When that checks out, the dealer hands over the cash, keeping the bill as a “receipt.”
<b>Step Six</b>	The courier takes the \$150,000 to a U.S.-based Chinese merchant, who has a bank account in China. The merchant then performs a currency swap known as a “mirror transaction.” He takes possession of the U.S. cash and then transfers \$150,000 worth of Chinese RMB from his Chinese bank account to the money broker’s Chinese account using an account number provided to him by the courier.
<b>Step Seven</b>	The cartel’s drug cash is now sitting in a Chinese bank, outside the view of U.S. law enforcement. The broker has two options to send it on to the drug cartel in Mexico.
<b>Step Eight</b>	<p>(option 1) Do another “mirror transaction.” The \$150,000 worth of RMB is now transferred from the money broker’s Chinese account to the Chinese bank account of a Mexico-based businessperson. That Mexico-based businessperson then provides \$150,000 worth of pesos to the money broker in Mexico, who delivers that cash to the cartel.</p> <p>(option 2) The Chinese money broker buys \$150,000 worth of consumer products in China, such as clothing, and exports them to Mexico. The goods are then sold and the proceeds are delivered to the cartel.</p>

Source: Drazen Jorgic, “Factbox: Step by Step - How Chinese ‘Money Brokers’ Launder Cash for Mexican Drug Cartels,” *Reuters*, December 3, 2020. <https://www.reuters.com/article/us-mexico-china-cartels-factbox/factbox-step-by-step-how-chinese-money-brokers-launder-cash-for-mexican-drug-cartels-idUSKBN28D1LW>.

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