



Testimony of Terry Goddard
Attorney General
State of Arizona

House Committee on Homeland Security
Subcommittee on Border, Maritime, and Global Counterterrorism
“Enhancing DHS’ Efforts to Disrupt Alien Smuggling
Across Our Borders”

Washington, D.C.

July 22, 2010

**Testimony of Honorable Terry Goddard, Arizona Attorney General,
Before the House Committee on Homeland Security
Subcommittee on Border, Maritime, and Global Counterterrorism**

Alien Smuggling and the Mexican Cartels: The State of Arizona's Experience

July 22, 2010

Mr. Chairman, members of the Committee, it is an honor to appear before you today to give my perspective on alien smuggling and criminal cartel operations along the Southwest Border. It is important to be clear at the outset that alien smuggling operations are just one of a diverse line of businesses operated by the Mexican criminal cartels, which I consider the most immediate and serious threat to the security of the Southwest border. For this reason, before getting into the specifics of alien smuggling, it is important to understand the broader scope of the cartel problem.

Cartel Violence

As I am sure you are aware, the level of violence from the Mexican cartels has been accelerating for nearly a decade. But what we have seen in the last three years is an alarming increase in open, brazen, and deadly violence just **south** of our border. I stress **south** to dispel any suggestion that Arizona itself is a dangerous place for law-abiding people. It is not. In fact, violent crime within our state has dropped nearly 20 percent in the last five years. People who suggest otherwise, either purposefully or naively, are misinformed and further confuse an already complex situation.

Nevertheless, **in Mexico**, the cartels have killed more than 22,700 people since 2007. This alarming level of violence warrants much more serious attention from our country than it has received. To appreciate the scale of this carnage, it is useful to compare the recent death tolls in Mexico with those in actual war zones:

- Mexican cartel killings in the last three years alone exceed the combined number of Afghan troops, American troops, coalition troops, and civilians killed during the entire nine-year course of the Afghan war.
- Cartel killings in Mexico are also more than five times the number of American soldiers lost in nine years in Iraq.

Of particular concern to border states like Arizona, this problem is worse in Mexican border towns:

- Killings in Juarez, Chihuahua (directly across from El Paso) are over 750 percent higher than the Mexican national average.
- In Nogales, Sonora – a significant port of entry for U.S.-Mexican trade and the counterpart to our own Nogales, Arizona – killings in 2010 are on a pace to shatter last year's record breaking murder rate there.

Equally disturbing are the attacks on Mexican democracy and law enforcement:

- Just last month, the leading gubernatorial candidate in Tamaulipas and several members of his staff were assassinated.
- Those killings came on the heels of the attempted assassination of the Police Chief of Puerto Penasco, a popular destination for Arizona tourists.

But lest you think this is simply a border problem, the Department of Justice believes the cartels have active business operations in over 200 cities throughout the United States.

Arizona's Response

As Arizona Attorney General, the fight against cartel crime has been a top law enforcement priority. My strategy has been to follow the money – the flow of cash that finances cartel operations. When possible, we have intercepted suspicious wire transfers and seized cartel assets.

My Office has been particularly successful using this approach to break up human smuggling rings. Over the last eight years, we have demanded access to a host of wire transfer transactions involving Arizona. When we analyzed the data, we saw obvious patterns that helped us quickly distinguish between legitimate wire transactions and suspicious ones that were likely tied to payments to coyotes (the people who transport persons illegally across the border) for human smuggling.

For example, until recently, most legitimate wire transfer companies in Arizona wired more money out of Arizona than into it. This is because throughout most of the last two decades, the majority of wire senders were new or temporary workers who came to Arizona in good economic times and wanted to wire portions of their pay either back home to their families or to creditors. As a result, most of the person-to-person wires in the state involved small amounts of money – usually between \$100 to \$200.

As we started to investigate human smuggling drophouses and looked at how the smugglers were getting paid through wire transfers, we saw distinct patterns. At certain wire transfer locations – mostly agents of Western Union – we saw unusual levels of money being transferred to a single location in larger than average transactions. In contrast to the vast majority of legitimate businesses that sent more money out of state than they received, at these corrupt locations money was coming in at rates up to 100 times higher than it was going out. For instance, in 2005 a single location in central Phoenix received and paid out over \$12.8 million in person-to-person transactions in excess of \$500 each.

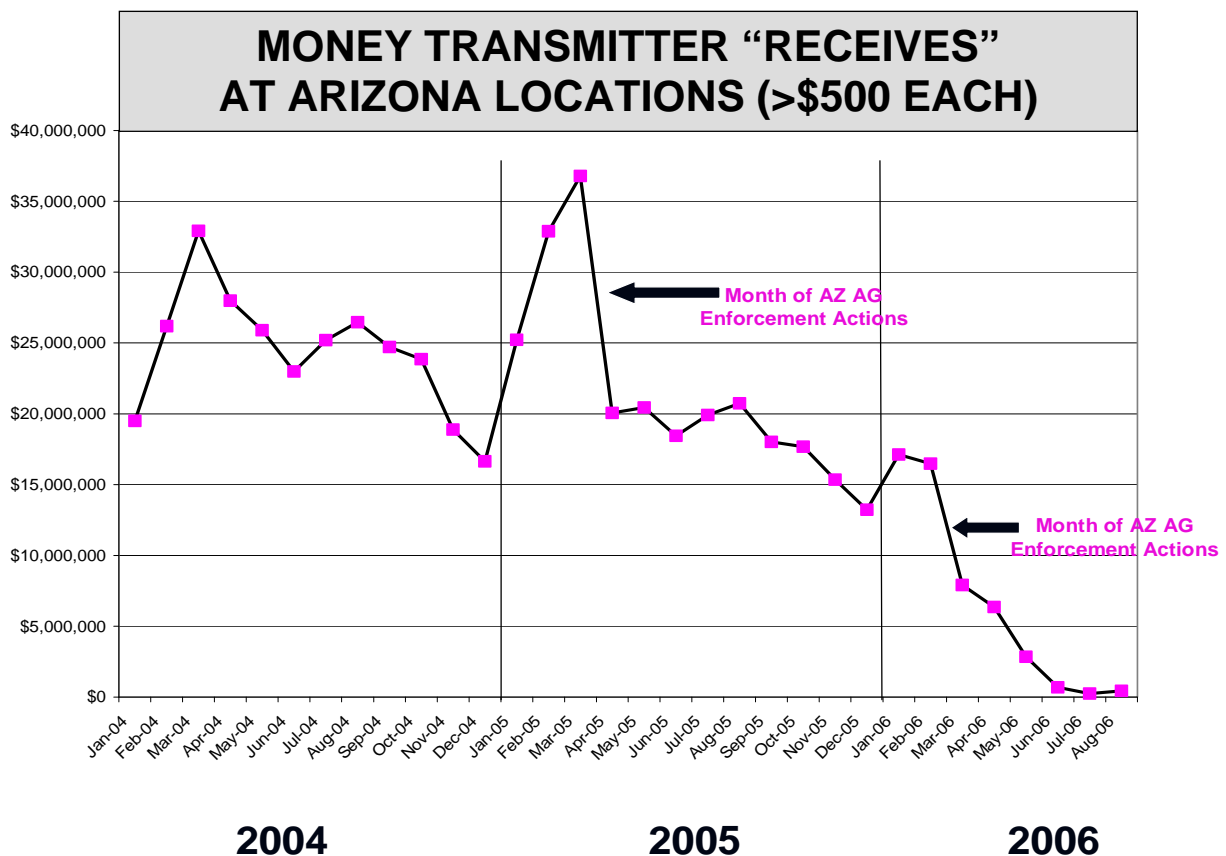
When we tracked these transactions more closely, we confirmed that the recipients of these wires were coyote agents. Upon receiving the wire transfer, agents would return to a drophouse and release a smuggled alien.

Using damming warrants and other judicial tools under our state anti-racketeering laws, we began to seize these criminal transfers as they were made, thereby disrupting the flow of cash to the smuggling cartels.

The results were startling. In two years, we:

- Seized approximately \$20 million in cartel assets;
- Arrested hundreds of coyotes and corrupt money wire agents; and
- Closed down 22 facilitating businesses that were laundering money generated from alien smuggling.

More significantly, our efforts were effective at disrupting the wire transfers to the cartels. As shown on the graph below, after two years of aggressive actions by my Office, suspicious wire transactions into Arizona dropped over 90 percent.



To better appreciate this graph, it is important to understand the seasonal nature of human smuggling through the Sonoran desert into Arizona. Persons seeking work in the United States are more likely to attempt to cross the desert in the winter and early spring when temperatures are cooler. Crossings tend to be lower in the hot and dry summer months. Northbound crossings also tend to drop late in the year when many workers return to their families for the holiday season. This seasonal pattern results in what law enforcement refers to as the "coyote curve," and can be seen in the level of money wire transfers in 2004, before we escalated our actions.

My Office's damming warrants and asset seizures occurred primarily in February, 2005, and February, 2006. As the graph shows, we dramatically reversed and ultimately ended suspicious money transfers into Arizona.

Unfortunately, the cartels are nimble, and they responded quickly to law enforcement action. After Arizona cracked down on suspicious wire transfers, the cartels changed their business model and started asking sponsors of smuggled persons to wire smuggling fees to cartel agents just south of the Arizona border and outside of our office's jurisdiction. Upon confirming receipt of the funds telephonically, the coyotes would then release the smuggled person.

Western Union Settlement

Which brings me to my Office's recent and historic settlement with Western Union.

During and after the time we were executing our damming warrants, we continued to try to work with money transmission companies, including Western Union, to enlist their help in stopping the flow of money wired to the cartels. Unfortunately, these efforts were not always successful. We found ourselves repeatedly in court with Western Union in particular.

In February of this year, however, I reached a milestone settlement with Western Union. The company pledged \$94 million in new private sector resources for the fight against border crimes, especially money laundering.

The settlement included \$21 million to cover Arizona's lengthy and extensive investigation and litigation costs; \$19 million in new Western Union anti-money laundering initiatives; \$4 million for a court-appointed monitor to ensure Western Union complies with the settlement terms and to recommend improvements in Western Union's AML programs; and, most significantly, \$50 million to fund a four-state Southwest Border Anti-Money Laundering Alliance aimed at attacking border crime.

Western Union also agreed to provide Arizona and the other border states' law enforcement with unprecedented near-real-time access to data on wire transfers along the – border, including certain locations deep into Mexico. This means that we can now track more of the payments between sponsors and the alien smuggling cartels.

I am especially pleased that once we settled with Western Union, the other money wire companies voluntarily agreed to provide us with the same data. We can now be confident in our ability to track significant wire transfers within the southwest border area. The initial data we have received promises a rich field of investigative leads. We are working with ICE, CBP, DEA, IRS, and local law enforcement throughout the border region to penetrate as deeply as possible into the cartel structure.

Partnership With Mexican Law Enforcement

Our country cannot successfully fight Mexican drug cartels alone. We need a stronger and more effective Mexican law enforcement partner. In this regard, we have recently enjoyed much better cooperation with the Mexican government. The week after our settlement with Western Union, I traveled to Mexico City to meet with Mexican Attorney General Arturo Chavez Chavez and other leaders in the Mexican Justice Department. I also met with leadership from the SSP, the federal police, and the Mexican Congress. I explained to them how we had been

able to follow and disrupt the flow of money to the cartels, as well as the importance of disrupting that flow in the fight to dismantle their operations.

I left my meetings in Mexico with renewed confidence that the Calderon Administration recognizes the threat that cartel warlords pose to the rule of law in Mexico and even to the success of democracy there. I am convinced that leadership within the Calderon Administration is genuinely committed to intensifying the fight against the cartels.

Indeed, several recent cooperative actions between U.S. and Mexican law enforcement give me hope for the future of joint bi-national law enforcement actions. First, using Merida Initiative funds, my Office has helped train over 400 Mexican state and federal prosecutors as that country works to improve its low criminal conviction rates. Working with fellow members of the Conference of Western Attorneys General, we have trained a total of 1,200 Mexican prosecutors.

Moreover, the flow of case-specific information between our countries has improved and is starting to bear real fruit. For example, in April, I joined Undersecretary of Homeland Security John Morton and United States Attorney Dennis Burke in announcing Operation Plain Sight, which resulted in the arrests of 47 members of a human smuggling ring operating on both sides of the Arizona-Mexico border. The simultaneous arrests of the kingpins of these operations in Mexico and Arizona would not have been possible without our new, strong, and highly productive relationships with Mexican law enforcement that is genuinely committed to fighting the cartels.

Expansion of the Cartel Threat

I caution again, however, that the cartels are very quick to adapt. Like any successful organized crime enterprise, they are on the prowl for new business opportunities. Recent reports from Mexico suggest that the cartels are diversifying their business operations and posing a more serious and immediate threat to international commerce. In the last year, the cartels have engaged in increasingly brazen criminal acts directed at international trade, including siphoning significant amounts of oil from pipelines, hijacking trucks carrying international cargo, and buying multinational trading companies to help launder their profits. These new criminal activities target the international business community and expand the cartels' reach, making them more difficult to attack.

The Need for a Stronger Federal Response

As I stated in a letter to the President earlier this month¹, cartel crime warrants much more federal attention and response than it has received to date. I agree with Attorney General Holder that the cartels pose "a national security threat." Indeed, I would go further: The growth in cartel size, strength, sophistication, and brutality is the most immediate actual threat to the security of Arizonans and many other Americans.

While I believe that leadership within the Departments of Homeland Security and Justice understands this threat, dismantling the cartels has not been raised high enough as a national priority.

¹ A copy of Attorney General Goddard's July 8, 2010 letter to President Obama is attached to this written testimony as Exhibit 1.

Despite the staggering levels of cartel violence immediately across our border, the cartels' demonstrated ability to penetrate our border defenses, and the direct threat that cartel power poses to trade with the U.S., federal spending on the fight against the cartels remains well less than one percent of our national spending on the wars in far-away Afghanistan and Iraq.

I have called upon the President to launch a major, multi-national, law enforcement initiative aimed first and foremost at identifying cartel warlords and bringing them to justice by every means available. Only through coordinated effort of the Departments of Justice, Homeland Security and Treasury, working closely with state and local law enforcement and the criminal justice forces in Mexico, can we hope to prevail.

Breaking up these cartels and restoring the rule of law within Mexico would not only bring better security to the border region, but also would greatly assist Mexican efforts to stabilize their economy and improve the conditions that compel so many Mexican citizens to seek work illegally in the United States. It would also restore safety and confidence to the many legitimate businesses (including tourism and agriculture) that seek peaceful trade between the United States and Mexico.

Our government unquestionably has the capability to bring the cartel warlords to justice. It is imperative that this Congress provide federal agencies and law enforcement on both sides of the border with the resources to defeat the cartels. Current federal funding targeting cartel operations is a tiny fraction of the profits the cartels are making from illegal activities.

I believe Congress should develop both short- and long-term responses. In the short term, Congress should help Arizona and the other southwest border states in our efforts to disrupt cartel operations that cross into our country. Specifically, I ask you to fund a dollar-for-dollar federal match of the border law enforcement grants awarded by the Southwest Border Anti-Money Laundering Alliance. The Alliance was created as a result of my settlement with Western Union. As I mentioned, the Alliance currently has \$50 million from Western Union to award to state and local law enforcement grants to combat border crime. That amount will be helpful, but it pales in comparison with the cartels' resources. A federal match would immediately double the Alliance's effectiveness and provide immediate help in combating the cartel threat.

In the longer run, I urge the Congress to adopt and fund a much more substantial campaign against the cartel threat than what we see today. We must specifically identify cartel warlords, attack them with no less than the intensity applied to mafia kingpins in the 1920s, and ensure that Mexican law enforcement and military have the tools they need to capture them, bring them to justice, keep them in prison, and dismantle their organizations.

We must anticipate the cartels' next moves, which are expected to include money laundering through international ATM locations and the use of new devices, such as stored value instruments and cards, to transport large sums of money across our border.

I have called on Treasury to enact regulations requiring people who transport stored value devices across international borders to declare the amounts on the cards, just as they declare any bulk cash (over \$10,000) in their possession. Border patrol agents must have the technology to read stored value cards. Anyone caught failing to disclose cards in their possession carrying greater than \$10,000 in stored value should be subject to serious criminal penalties.

This Committee should also be aware that the cartels seize and hold power through a combination of intimidation and corruption of public officials. One of the more shocking parts of our anti-cartel efforts in Arizona was the discovery of a cartel agent on the staff of one of the local prosecutors in a border county. I am sure that this will not be the last such double agent we find. The threat of further infiltration should be yet another reason to move ahead on this action without further delay.

Conclusion

We need to recognize the seriousness and proximity of the cartel threat to American security and eliminate that threat quickly.

Perhaps the biggest failure of our national debate on border security is that the cartel threat seems to have taken a backseat to discussions about immigration. Yet, if we eliminate the cartel organizations, the ability of large numbers to illegally cross our southwest border would be dramatically reduced. Very few illegal border crossers could make the trip across the harsh Sonoran Desert without the smuggling cartels who transport them. Crushing the cartels is the most effective way to reduce illegal border crossings. And, if we stand by while the cartels establish a lawless zone between Mexico's primary trade partner and the rest of Mexico, the entire Mexican economy will falter, and the present wave of immigrants will become a tsunami of refugees.

No international policy goals are of more immediate interest to the people of Arizona than restoring the rule of law in the border region and developing Mexico into a stable and prosperous trading partner. While the cartels are in power, lawlessness prevails, confidence in government suffers, and the dynamic economic growth associated with political stability is not possible.

Our nation has a long and successful history fighting organized crime. Despite the size and sophistication of the cartels' operations, I know we have the resources to dismantle their organizations. What is lacking is a specific resolve to see the effort to conclusion and the resources appropriate to eliminate the threat.

It is time for Congress and the Administration to focus on dismantling the criminal cartels to secure our southwestern border.

EXHIBIT 1



OFFICE OF THE ATTORNEY GENERAL
STATE OF ARIZONA

TERRY GODDARD
ATTORNEY GENERAL

July 8, 2010

SENT VIA ELECTRONIC COPY

Hon. Barack Obama
President of the United States
The White House
1600 Pennsylvania Avenue, NW
Washington, DC 20500

Dear Mr. President:

As Arizona's chief law enforcement officer, I write to respond to your recent statements about the security of our border with Mexico and to urge that you take immediate action to substantially strengthen our nation's fight against the most significant and immediate threat to border security: the powerful and violent Mexican drug cartels.

I remain appreciative of the new resources your Administration has begun to bring to our broken border, and I strongly support your call for major federal immigration reform.

Yet, having considered your recent remarks on these topics and your Administration's actions on border security, I am concerned that you may have misperceived the nature of the border threat, and in so doing, may have jeopardized the success of your well-intended initiatives. Your statement that our border has never been more secure, in part because we have more boots on the ground, misses a fundamental truth: ***Our border cannot be secure as long as the cartels are so deeply entrenched, so well-funded, and operate so brazenly.*** Until the cartels are dismantled, rampant trafficking of drugs, humans, guns and money across our border will persist.

The growth in size, strength and sophistication of the Mexican drug cartels is the most immediate actual threat to the security of Arizonans and other Americans from our broken border. The cartels are responsible for the murders of more than 22,700 people south of our border since 2007. These are war zone-like death tallies. They exceed the combined number of all deaths of American troops, coalition troops, and civilians in the war in Afghanistan since it began in 2001. In fact, the number of violent civilian deaths in Mexico last year also exceeded the number of violent civilian deaths in Iraq. As Attorney General Holder correctly noted last year, "International drug trafficking organizations pose a sustained, serious threat to international safety and security. They are a national security threat."

Yet, despite the proximity of the American public to this threat (many, if not most, of the killings are occurring in Mexican border towns like Juarez, Chihuahua, and Nogales, Sonora),

PROTECTING ARIZONA

the federal response to the situation there has paled in comparison with the \$12 billion per month we are now spending to fight in far-away Iraq and Afghanistan. Indeed, even with your new, enhanced financial commitment to the Southwest border, federal spending in this area constitutes less than one percent of our nation's annual expenditures in Iraq and Afghanistan.

For those of us actually living on the border, this imbalance is intolerable. And it is worsened by the fact that Arizonans pay a disproportionate share of the costs associated with our broken border. As I and others have repeatedly pointed out, Arizona houses a substantially higher percentage of criminal aliens than other states; yet we get paid only about 10 percent of our costs for incarcerating them—despite the clear mandate of the SCAAP law that the federal government either pay our full cost or take our criminal alien population into federal custody.

These realities must change, because the problem is getting worse. The cartels are now diversifying their business operations by attacking major sources of domestic and international commerce. Recent reports of truck hijackings and thefts from petroleum pipelines by the cartels confirm that they are finding new ways to make money, overrun civil authority, and expand their power.

Perhaps more troubling, the cartels have launched an assault on Mexican democracy itself. The recent assassination of leading gubernatorial candidate Rodolfo Torre and his staff, on the heels of an attempted assassination of the Chief of Police of Puerto Penasco, sends a clear message that the cartels believe they—and not the Mexican people, the Mexican government, or even the United States—control the border region.

The time has come for you to identify and more forcefully respond to the real threat on our border. The cartel leaders are nothing short of well-armed warlords whose continued operations near and across our border pose a significant, serious, and immediate threat to Arizona's and the nation's security.

I call on you to launch a major, multi-national, law enforcement initiative aimed first and foremost at identifying cartel warlords by name and bringing them to justice by all means available. Breaking up these cartels and restoring the rule of law within Mexico not only would bring better security to the border region, but also would greatly assist Mexican efforts to stabilize their economy and improve the conditions that compel so many Mexican citizens to seek work illegally in the United States. It would also restore safety and confidence to the many legitimate businesses (including tourism) that seek peaceful trade between the United States and Mexico.

I can think of few international policy areas of more immediate interest to the people of Arizona than restoring the rule of law in the border region and developing Mexico into a safe, stable and prosperous trading partner. For this reason, I have made the fight against the cartels my top priority as Arizona's Attorney General. The prosecutors and investigators in my Office have helped take down a number of drug- and human-smuggling rings. Using federal Merida Initiative funds, we have trained over 400 Mexican prosecutors to help improve that country's low criminal conviction rates. I also secured an important \$94 million recovery from Western Union that includes \$50 million for the four states that make up the Southwest Border Alliance to further Arizona's work in disrupting the flow of money to the cartels.

Hon. Barack Obama
July 8, 2010
Page 3

If my Office can achieve these results on our limited state budget, imagine the impact the federal government could make if it devoted even five percent of the money it is spending on the wars in Iraq and Afghanistan. At a minimum, as I have discussed on several occasions with Secretary Napolitano and Customs and Border Patrol Commissioner Alan Bersin, I implore you to find funding to provide dollar-for-dollar federal matches to the law enforcement initiatives being funded by our Southwest Border Alliance.

Which brings me to my final point: In the absence of a new and comprehensive federal immigration law, it is just wrong for this Administration to fight state efforts to address the effects of our broken border. While I did not agree with the specific approach taken by my state when it passed SB 1070, I fully support Arizona's right to take strong action to protect our taxpayers from the substantial costs of residing along a broken border.

Your Administration's decision to challenge Arizona's law before it even takes effect — without any effort to address Arizona's costs or to effectively deal with the cartel threat — has created substantial and justifiable anger here. That anger should not be underestimated, and threatens to undermine the effectiveness of your efforts to secure needed federal immigration reform.

I strongly urge you to take two steps to address that anger: 1) focus federal law enforcement efforts on a stronger and higher profile multi-national effort to find and incarcerate the leaders of the cartels; and 2) propose real financial relief to Arizona taxpayers who have paid far more than most others of the financial consequences of a failed federal border policy. Fully funding the SCAAP law and better compensating border state hospitals for emergency treatment of immigrants would go a long way toward addressing the frustrations of Arizonans and other border state taxpayers.

I would be pleased to meet with you at any time to discuss these important issues further.

Sincerely,

A handwritten signature in blue ink that reads "Terry Goddard". The signature is written in a cursive, slightly slanted style. The first name "Terry" is written in a larger, more prominent script, and "Goddard" follows in a similar but slightly smaller script. The signature is positioned above the printed name.

Terry Goddard