



Gangs Beyond Borders

California and the Fight Against Transnational Organized Crime

March 2014

Kamala D. Harris
California Attorney General

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Message from the Attorney General



California is a leader for international commerce. In close proximity to Latin America and Canada, we are a state laced with large ports and a vast interstate system. California is also leading the way in economic development and job creation. And the Golden State is home to the digital and innovation economies reshaping how the world does business.

But these same features that benefit California also make the state a coveted place of operation for transnational criminal organizations. As an international hub, more narcotics, weapons and humans are trafficked in and out of California than any other state. The size and strength of California's economy make our businesses, financial institutions and communities lucrative targets for transnational criminal activity. Finally, transnational criminal organizations are relying increasingly on cybercrime as a source of funds – which means they are frequently targeting, and illicitly using, the digital tools and content developed in our state.

The term "transnational organized crime" refers to a range of criminal activity perpetrated by groups whose origins often lie outside of the United States but whose operations cross international borders. Whether it is a drug cartel originating from Mexico or a cybercrime group out of Eastern Europe, the operations of transnational criminal organizations threaten the safety, health and economic wellbeing of all Americans, and particularly Californians.

This is not a new threat – one of the first official trips I made as Attorney General in 2011 was to tour the United States-Mexico border and discuss strategies to combat transnational crime with state and local law enforcement. The following year, in 2012, we convened a working group to research and issue a report on human trafficking, an increasing activity of transnational criminal organizations. That report, *The State of Human Trafficking in California*, proposes innovative strategies to investigate and prosecute the perpetrators and victims of trafficking. But human trafficking is only one part of transnational crime operations.

This new report, *Gangs Beyond Borders: California and the Fight Against Transnational Organized Crime*, addresses all three emerging pillars of transnational criminal activity: the trafficking of drugs, weapons and human beings; money laundering; and high-tech crimes, such as digital piracy, hacking and fraud. It is the result of extensive research and consultation with federal, state, and local law enforcement, non-governmental organizations, and academia.

The report finds that while transnational organized crime is a significant problem, it is not insurmountable. In California, law enforcement at all levels of government have made major strides against these criminal groups, even in the face of declining resources. Law enforcement in foreign countries have made steady in-roads, as well, as demonstrated by the recent arrest in February 2014 of Joaquín "El Chapo" Guzmán Loera, the reputed head of Mexico's notorious Sinaloa Federation cartel. The report describes the strategies that are working and sets forth recommendations to combat transnational organized crime. A call for sustained law enforcement funding and collaboration between federal, state, and local governments are at the center of these recommendations.

As transnational criminal organizations evolve in the search for profits, California will continue to be an attractive target. *Gangs Beyond Borders* sheds light on this threat in our state and highlights effective approaches in the fight against transnational organized crime. I hope it will be a useful tool for law enforcement and the public.

Sincerely,



Attorney General Kamala D. Harris



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Kamala D. Harris

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The Attorney General is grateful for the insight and support from California's law enforcement associations, which represent the men and women who lead the fight against transnational organized crime in our communities. Our thanks in particular go to the **California State Sheriffs' Association**, the **California Police Chiefs' Association**, the **California District Attorneys' Association**, the **California Narcotics Officers' Association**, and the **California Peace Officers' Association**.

Our efforts combatting transnational organized crime are shared with federal law enforcement in California, and the Office of the Attorney General expresses appreciation for case and research information provided by the **United States Attorneys' Offices for the Central and Southern Districts of California** and the **U.S. Department of Justice's Criminal Division**. Additional federal support for the preparation and production of this Report was generously provided by the **U.S. Department of Homeland Security (Homeland Security Investigations)**, the **White House's Office of National Drug Control Policy** and **National Security Council**, and the **U.S. Treasury Department's Financial Crimes Enforcement Network**.

Transnational organized crime reaches into California from abroad, and collaboration with law enforcement partners and government entities outside of our state is vital. This Report benefited immensely from the insight and assistance from the staff and members of the **Southwest Border Anti-Money Laundering Alliance**, a coalition made up of the Attorneys General offices from Arizona, California, New Mexico, and Texas. We also would like to acknowledge the cooperation from the **Legal Attaché of the Mexican Attorney General's Office**.

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Executive Summary

Over the last century, few issues have grabbed the nation's attention like organized criminal activity. In particular, transnational organized crime – crime that reaches beyond borders – has been a topic frequently explored, and occasionally even glamorized, by the media and through film. But for the people of California, transnational organized crime is not simply a subject for the silver screen. It is an everyday reality associated with drug trafficking, sexual slavery, and shocking violence that affects nearly every community in the Golden State.

Transnational criminal organizations are self-perpetuating associations operating across national borders that use violence, corruption, and fraud to protect and disguise their illicit, profit-driven activities. This Report examines how these groups – with roots in places around the globe – have flocked to California to engage in an increasingly diverse range of criminal activities.

Chapter One looks into the varying nature of transnational criminal organizations, ranging in size and sophistication from corporation-like drug cartels and extremely violent transnational gangs to Internet-based hacking and financial fraud rings. These organizations are incredibly fluid and adaptive, and their profit-motivated operations run the gamut from traditional crimes – such as narcotics, weapons, or human trafficking – to complex money laundering schemes and specialized cybercrimes.

Like parasites, transnational criminal organizations whose operations extend into California thrive by exploiting their host's strengths. California's economy – a global leader owing to its shared border with Mexico and its status as a gateway for trade between the U.S. and East Asia – attracts hard-working immigrants from around the world and maintains highways and high-speed data networks that speed the flow of goods, people, and information throughout the state. **Chapter Two** explains how transnational criminal organizations have taken advantage of these factors in an attempt to transform California into a center of transnational organized crime. California is the nation's largest portal not only for drugs and human trafficking victims flowing *into* the U.S., but also for weapons and the laundered proceeds of illicit activity smuggled *out* of the U.S. – often through the very same trafficking routes.

The harm done by transnational criminal organizations to communities all across California is hard to overstate. Not only do these organizations threaten public health by driving the supply and distribution of harmful narcotics, but their alliances with violent prison and street gangs (a trend addressed at length in **Chapter Three**) have sparked a rash of violence in a period of otherwise declining criminal activity. Moreover, the substantial amount of illicit money moving through California's economy threatens the security of the state's financial institutions, local businesses, and communities, with an estimated \$30 to \$40 billion in illicit funds laundered through California commerce every year.

Transnational criminal organizations are increasingly taking advantage of new communications technology and the interconnectedness of the globalized world to further their trafficking activities in California. This creates new challenges for law enforcement, a topic explored in **Chapter Four**. But transnational organized crime in California extends beyond drugs, weapons, and human trafficking. In the 21st century, the problem posed by transnational criminal organizations threatens the security of computer and data networks, the integrity of online bank accounts, and the rights of intellectual property holders. By virtue of its population and knowledge-powered economy, California is the top target in the nation for this new generation of transnational criminal organizations – originating in significant numbers from Eastern Europe, but also Africa and China – whose purpose is to commit highly profitable hacking, fraud, and digital piracy crimes. This emerging cybersecurity threat is discussed in **Chapter Five**.

Recognizing the significant threat posed to California's economy and people by transnational criminal organizations, Attorney General Kamala D. Harris assembled a team of researchers, policy analysts, and law enforcement officials to identify the challenges these organizations create and to formulate recommendations to combat them in California most effectively (**Chapter Six**). This report is based on dozens of interviews with law enforcement officials, prosecutors, and policy experts, an in-depth review of state task force data, and research and investigation by the California Department of Justice.

Highlights of the 2014 Report

- Mexico-based transnational criminal organizations are suspected of trafficking 70 percent of the U.S. supply of methamphetamine through the San Diego port of entry alone, making California the primary source for methamphetamine nationwide. In 2013, border authorities seized over 6,200 kilograms of methamphetamine entering California, a three-fold increase since 2009.
- The Sinaloa Federation cartel has emerged from the fragmented Mexican drug market as the dominant Mexico-based drug trafficking organization operating in

California. Sinaloa is now responsible for trafficking the vast majority of Mexico-produced marijuana, methamphetamine, heroin, and cocaine through the Tijuana corridor into California.

- The public safety threat posed by Mexico-based drug trafficking organizations has been amplified as cartels have formed alliances with California prison and streetgangs to control trafficking routes, distribute drugs, and kidnap, extort, and kill as necessary to protect their criminal activities. The Mexican Mafia, for example, provides protection for members of numerous cartels both inside and outside prison, and various Hispanic Sureño and Norteño gangs in Southern and Northern California have teamed up with Sinaloa, La Familia Michoacana, The Knights Templar, and other Mexico-based drug trafficking organizations.
- With gang membership up 40 percent nationally between 2009 and 2011, California has seen higher levels of violent crime (particularly assault, extortion, home invasion robberies, homicide, intimidation, and shootings), as well as an increase in arrests for human trafficking offenses and significant seizures of drugs, weapons, and cash.
- Transnational criminal organizations are taking advantage of new communications technologies and social media to facilitate criminal activity, recruit new members, and intimidate or harass their rivals – even from inside prison walls. In 2011, for example, over 15,000 cell phones were seized from inmates in California prisons.
- Recent increases in the use of *panga* boats to smuggle drugs and people into California exemplify the constant tactical adaptation by transnational criminal organizations. Boats capable of carrying 12 tons of marijuana have landed as far north as Santa Cruz County, with a steady increase in *panga* sightings and landings throughout the Central Coast.
- Between 2009 and 2012, the number of intentional breaches of computer networks and databases in the U.S. jumped by 280 percent, with California's share leading the nation. Many of these breaches have been tied to transnational criminal organizations operating from Russia, Ukraine, Romania, Israel, Egypt, China, and Nigeria, among other places.
- In the 2012-2013 fiscal year, California state drug task forces disrupted or dismantled 140 drug, money-laundering and gang organizations, arrested nearly 3,000 individuals, rescued 41 drug-endangered children, confiscated 1,000 weapons, and seized nearly \$28.5 million in U.S. currency in anti-narcotic law enforcement actions statewide. Federally-sponsored High Intensity Drug Trafficking Areas ("HIDTA") program task forces also identified 305 drug-related transnational

criminal organizations operating in California, and 18 street and prison gangs with ties to these organizations.

- At the same time, state-led task forces charged with protecting California from transnational criminal organizations have suffered severe budget reductions over the last five years, with the number of operating task forces dropping from 55 in 2011 to just 17 in 2013.

Summary of Recommendations

Trafficking

- **The Legislature should amend California law to target the leaders of transnational criminal organizations operating in California:** California does not currently have any statutes that specifically target or punish supervisors, managers, or financiers operating on behalf of transnational criminal organizations. California should fill this statutory void by enacting legislation similar to the federal Continuing Criminal Enterprise Act to directly attack the leadership of these organizations.
- **Federal, state, and local law enforcement should use California's State Threat Assessment System as a central hub for sharing information about transnational crime:** California presently lacks a unified system for collecting, analyzing, and sharing information regarding transnational organized crime. California's State Threat Assessment System (STAS) is uniquely positioned to act as that central hub for California's transnational crime information-sharing needs. In coordination with the Attorney General's Office, California's tribal, local, state, and federal law enforcement agencies should partner with STAS to share information about transnational criminal organizations across the state.
- **Federal, state, and local authorities should establish a unified maritime task force and associated radar network to counter maritime smuggling operations along California's coastline:** While several *regional* partnerships and a federal task force exist to address maritime smuggling operations along California's coast, California needs a multi-jurisdictional Maritime Task Force – that leverages expertise at the federal, state, and local levels – to combat the threat posed by *panga* vessel smuggling. California should also work with Coast Guard Officials to implement a network of high-intensity radar stations or sonar buoys strategically located along the coast to better detect maritime threats and coordinate law enforcement responses.
- **The Legislature and Governor should fund five additional Special Operations Units across California:** The increasingly sophisticated nature of transnational criminal organizations demands an equally sophisticated and coordinated

response from law enforcement. The California Department of Justice's Bureau of Narcotics Enforcement, and related task forces and special operations units, were remarkably successful in targeting and dismantling transnational organized crime cells in California before severe budget cutbacks in 2011 limited their operational capacity. Restoring funding to special operations units in Sacramento, San Francisco, Riverside, Los Angeles, and San Diego is a necessary step in the fight against transnational organized crime in California.

- **The federal government should continue providing critical funding to support state and local law enforcement agencies in investigating and dismantling trafficking organizations:** In particular, Congress should maintain and increase funding levels for methamphetamine law enforcement grants through the U.S. Department of Justice's Community Oriented Policing Services (COPS) office. Additionally, the California Board of State and Community Corrections, which administers federal law enforcement grants from the Byrne Justice Assistance Grant Program, should restore the allocation of these funds to joint state-local task forces.
- **Federal, state, and local law enforcement agencies should increase operational coordination in combatting transnational criminal organizations:** Given the international scope of these trafficking networks, federal, state, and local law enforcement agencies in California must work together – at the investigatory and prosecutorial levels – to combat major transnational criminal organizations and their alliances with prison and street gangs.

High-Tech Crimes

- **State and local authorities should develop public-private partnerships to leverage technology against transnational organized crime:** As the frequent target of transnational criminal schemes, the private sector is at the frontline defending against numerous high-tech threats. It is not surprising that it often has access to information and technologies that the government does not. By forming public-private partnerships, state and local authorities can leverage the private sector's comparative strengths to counter the ever-changing threats and tactics of transnational criminal organizations.
- **Businesses should adopt industry best practices designed to protect against cybercrime:** Lax cybersecurity practices, or the lack of any protections whatsoever, allow far too many breaches of computer networks and databases to happen in California. All entities, public and private, doing business in California should assume that they are a target and defend themselves accordingly by adopting the industry best practices identified in the Department of Justice's recently released report, *Cybersecurity in the Golden State* (<http://oag.ca.gov/cybersecurity>).

Money Laundering

- **The Legislature should amend California law to enable prosecutors to temporarily freeze the assets of transnational criminal organizations and their gang associates before the filing of an indictment:** Under current law, transnational criminal organizations are often given the equivalent of advance warning that their criminal proceeds and assets are about to be seized by law enforcement. That is because of a legal void that prevents the seizure of any assets until the filing of a formal criminal indictment. As a result, in cases where illicit assets are discovered before an indictment can be filed, criminals have the chance to remove their assets before they can be taken. This loophole must be eliminated by empowering law enforcement to temporarily freeze an organization's illicit proceeds or property in advance of a formal prosecution.
- **The Legislature should strengthen California's prohibition against financial transaction "structuring":** When it comes to proving that a financial transaction was "structured" to evade financial reporting requirements, California law imposes a special burden on prosecutors that federal law does not. To prove "structuring" under California law, prosecutors must show not only that transactions were organized to avoid mandatory reporting requirements, but also that such structuring was *intended* to disguise proceeds from illicit activities. This special burden on state and local prosecutors hampers the ability to disrupt money laundering schemes and should be eliminated.
- **California prosecutors need advanced training to combat sophisticated transnational money laundering schemes:** At the same time that budget reductions have curtailed investigatory and prosecutorial capacities, transnational criminal organizations are becoming more and more sophisticated in how they launder their illicit profits. A key to disrupting this sophisticated criminal activity is through equally sophisticated and aggressive prosecutions. Advanced training and technical assistance to state and local prosecutors investigating and prosecuting complex money laundering schemes is vital to building the capacity to bring these prosecutions.
- **State authorities should partner with their Mexican counterparts to share intelligence and disrupt the illicit flow of money across the border:** The ease with which large sums of money can be whisked across borders has never been greater. For this reason, it is critical that investigators and regulatory officials on both sides of the border have the most up-to-date information about cross-border currency flows and the people behind them and cooperate in disrupting money laundering schemes.



Introduction

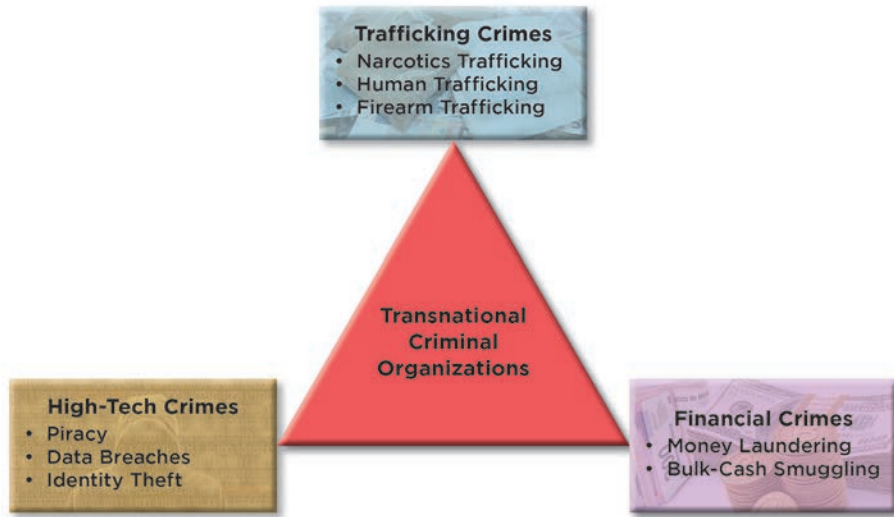
Transnational organized crime in California is as diverse as it is complex. It involves a range of profit-motivated criminal activities perpetrated by an ever-increasing array of transnational criminal organizations, located both within California and abroad. These organizations have taken advantage of the technological revolution of the last two decades, as well as advancements in trade, transport, and global money transfers, to substantially increase the scale and profitability of their criminal activities in California.¹

Unlike the large, hierarchically-organized international crime groups of the late 1980s and early 1990s, such as the well-known Medellín or Cali drug cartels, modern transnational criminal organizations are incredibly fluid and adaptive, and have diversified their criminal enterprises. Transnational criminal organizations varying in size, scope, and influence have now established a presence in virtually every one of California's major urban areas, as well as many smaller cities. They present a real and significant statewide threat to the economic and social fabric of California.

Their profit-driven operations run the gamut from more traditional crimes – such as narcotics, weapons, and human trafficking (the use of force, fraud, or coercion to exploit a victim for profit) – to complex money laundering schemes and sophisticated computer attacks designed to steal personal information and money (Figure 1). These crimes, and the transnational criminal organizations orchestrating them, exploit millions of Americans and impose costs estimated to be in the hundreds of billions of dollars annually.² Transnational criminal organizations are also constantly altering their illicit capabilities, refining and adapting their tactics in response to enhanced local, state, and federal law enforcement interdiction efforts.

Throughout this Report, we make reference to these groups and their criminal conduct in various ways – as “transnational gangs,” “transnational criminal organizations,” or the shorthand “TCOs,” as well as “transnational organized crime.” There is no singular or exclusive domestic or international definition of a transnational criminal organization and, in fact, the success these groups have enjoyed is due in part to the ambiguity of their organizational structures. However, transnational criminal organizations possess many common traits and Chapter One of this Report discusses those commonalities.

Figure 1
Transnational Organized Crime in California



The Report is a broad review of transnational criminal activity in California. We analyze four types of transnational criminal organizations active in California (Mexico-based drug cartels, Asian and Eastern European transnational criminal groups, transnational gangs, and Internet-based hacking and fraud rings) and explore their operations in trafficking (drugs, human beings, and weapons), money laundering, and high-tech crime. At their core, the criminal operations conducted by these organizations all have international and domestic dimensions, directly impacting California and its residents.



Transnational Criminal Organizations – Structure and Operations

As defined by the National Security Council, transnational criminal organizations are self-perpetuating associations operating across national borders that use violence and corruption, and exploit transnational commerce and communications, to protect and disguise their illicit, profit-driven activities.³ These organizations utilize a number of different organizational structures, including hierarchies, clans, networks, and cells, with many transnational criminal organizations evolving and adapting over time due to changing circumstances.⁴ They may be tied together by ethnicity, territory, or even personal relationships, or they may share a focus on particular segments of the illicit marketplace.⁵

Transnational criminal organizations have a presence in virtually every major urban area in California, as well as in many smaller cities around the state. From South to North, transnational criminal organizations of varying types have permeated and penetrated California, finding a foothold throughout the state (Figure 2).

Figure 2
TCO Hot Spots in California



Source: CA State Threat Assessment Center (2014)

Transnational Criminal Organizations in California: Four Key Organizational Structures

1. The Rise of Mexico-Based Drug Cartels

The dominant organizational structure of transnational criminal organizations operating in California is the corporation-like drug trafficking organization. These organizations are commonly referred to as “cartels,” so we will use the terms interchangeably. Traditionally, these large cartels had rigid hierarchical structures, but analysts have identified a general trend in recent years toward decentralized cells controlled by a governing body as the “nerve center.”⁶

The primary cartel-like transnational criminal organizations active in California are Mexico-based transnational criminal organizations (commonly referred to as “Mexican drug trafficking organizations”). Though Mexican drug trafficking organizations have been in operation for more than a century, the last 20 years have witnessed a profound change in the operation and control of the key trafficking routes to the United States. The associated emergence of these organizations has been described as “the greatest organizational drug threat to the nation.”⁷

Following the dismantlement of the Medellín and Cali drug cartels by the Colombian government in the late 1980s and early 1990s, the highly-profitable cocaine trafficking routes to the United States were taken over by Mexican drug trafficking organizations, particularly the Tijuana cartel (controlled by the Arellano Félix family and also known as the Arellano Félix Organization) and the Juárez cartel (operated by the Carrillo Fuentes family).⁸ However, in 2000, the administration of Mexican President Vicente Fox, in consultation with the U.S. government, began to target high-level operatives – first in the Tijuana cartel, and then in the Juárez cartel – that resulted in the capture or death of several Félix and Fuentes family members.⁹ While successful in many respects, this crackdown also resulted in fragmentation of the Mexican drug trafficking market, leading to increased violence, not only between the larger drug trafficking organizations and the government, but also among smaller “cartelitos” vying for a share of the drug trafficking industry.

Out of this power vacuum, the Mexico-based drug trafficking organization known as the Sinaloa Federation has emerged as the dominant transnational criminal organization operating in California. Sinaloa – whose roots can be traced back to the breakup of the Guadalajara cartel in the 1980s – is now responsible for the vast majority of drug, weapons, and human trafficking across the California-Mexico border.¹⁰

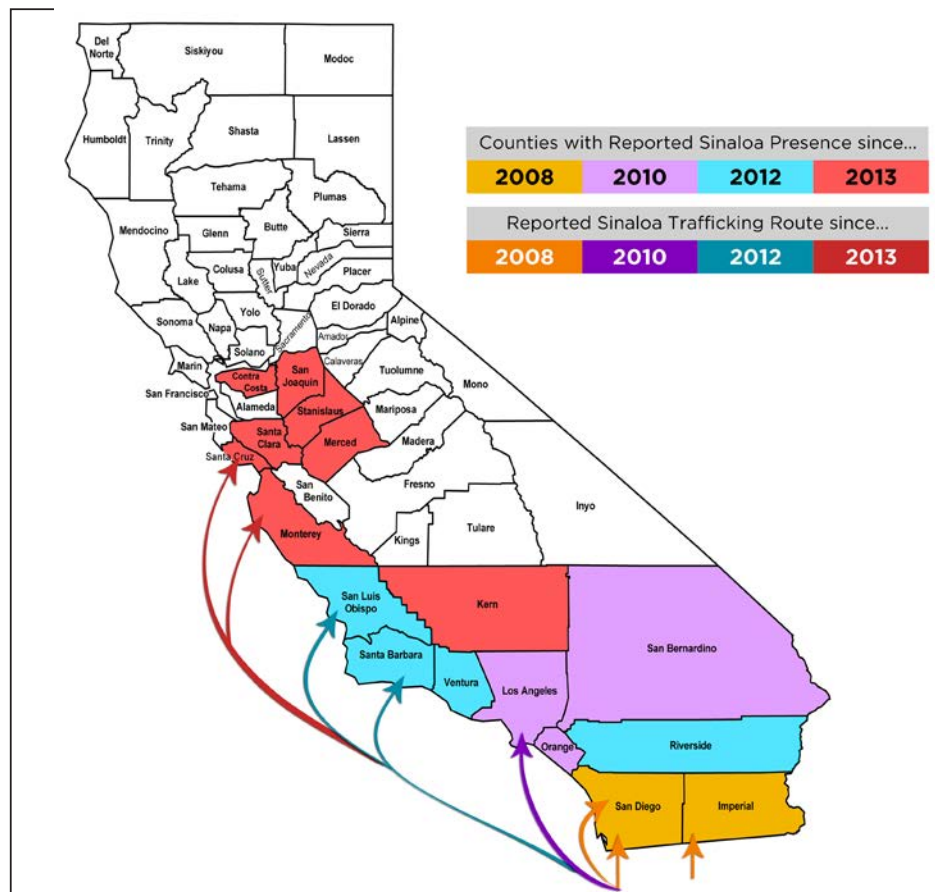
Sinaloa and other Mexican drug cartels are adapting their corporate structures to better leverage existing resources and alliances and expand the financial and geographic scope of their enterprise. For example, Sinaloa – which has allied with the Gulf cartel,

Los Caballeros Templarios, and the Arellano Félix Organization – has adopted a decentralized, less-hierarchical structure, whereby leadership directs peripheral lieutenants to carry out operations in a “hub and spoke” manner.¹¹

This “federation” of Sinaloa-affiliated cells, developed by the cartel’s recently-arrested leader, Joaquín “El Chapo” Guzmán Loera, allows Sinaloa to maintain a presence in at least 17 Mexican states and 50 other countries throughout North, Central, and South America, Australia, Europe, Southeast Asia, and West Africa, with each subgroup enjoying significant autonomy in its business operations and ability to retain profits.¹²

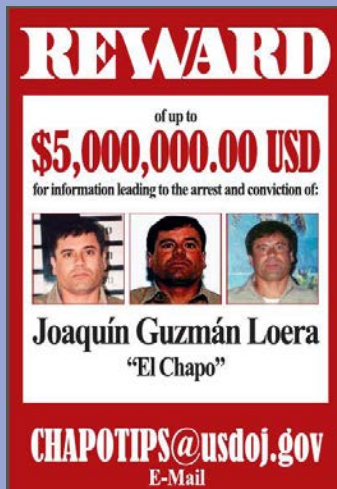
Sinaloa is particularly active in Southern California, where it coordinates with Hispanic Sureño street gangs to distribute narcotics. The expansion of Sureño gang territories has also allowed the cartel to expand its influence to Northern California (notably, the San Jose area) and into neighboring states like Oregon, Nevada, and Arizona (Figure 3).¹³ This ever-increasing zone of influence has caused friction with existing regional gangs that had previously controlled trafficking routes, resulting in threats of violence, homicides, kidnappings, and extortion.¹⁴

Figure 3
Sinaloa Presence in California



The Sinaloa Cartel: An Uncertain Future

Analysts trying to explain Sinaloa's rise over the past decade have argued that Sinaloa leaders received preferential treatment from the Mexican government while rivals were targeted. The Mexican government has strongly denied this claim. Others have suggested that Sinaloa took advantage of a Mexican government hotline intended to boost intelligence gathering on drug trafficking organizations in order to report the actions and locations of Sinaloa's rivals. While the July 15, 2013 arrest of Miguel Angel Trevino Morales, the leader of Sinaloa's main rival, Los Zetas, lent some credence to this theory, the recent crackdown on Sinaloa's senior leaders suggests that any preferential treatment has come to an end.



The most significant event in this regard was the arrest of Sinaloa's leader, Joaquín "El Chapo" Guzmán Loera. In the early morning hours of February 22, 2014, Mexican authorities arrested Guzmán in the Mexican resort city of Mazatlan. Since his 2001 escape from a Mexican prison, Guzmán had been the chief executive of Mexico's most powerful drug cartel and held the dubious distinction of being on both the annual *Forbes* list of billionaires and the D.E.A.'s "Most Wanted" list. He is named in federal drug trafficking indictments in California, New York, Illinois, and Texas, and faces charges in Mexico related to his 2001 escape and subsequent criminal activity.

Guzmán's arrest followed the takedown of several top Sinaloa operatives in late 2013 and early 2014, including the arrests of 10 mid-level cartel members in February 2014 alone. Information gleaned from those arrests led to the capture of Guzmán, who had been suspected of moving covertly between seven homes in Mazatlan through a series of underground tunnels connected to the city's sewer system.

While it is not immediately clear what impact the arrest will have on Sinaloa's operations, some experts predict that, in the short term, the cartel will continue business as usual, with Guzmán's partners, Ismael "El Mayo" Zambada and Juan Jose "El Azul" Esparragoza-Moreno, likely stepping into his role. Professor Pamela Starr of the University of Southern California, who studies U.S.-Mexico relations, doubts that Guzmán's arrest will cause significant operational upheaval in the short term. "Guzmán has been on the run for years, so it is unlikely he was still running Sinaloa's day-to-day operations." The future, however, is less certain. Starr predicts that Sinaloa's difficulty will be establishing a long-term leadership structure after El

Mayo and El Azul cycle through as transitional heads. Smaller drug trafficking organizations currently under the Sinaloa umbrella might try to establish their independence and grow their territory. For these reasons, Starr hypothesizes that “this is the beginning of the end for Sinaloa – how long it takes and how it happens remains to be seen.”

The speculation about Sinaloa’s possible decline raises the additional possibility of increased violence. Vanda Felbab-Brown, a senior fellow at the Brookings Institution, is concerned about a fragmented Mexican drug market – as occurred after the Mexican government’s crackdown on the Tijuana and Juarez cartels in the early 2000s – in which organizations vie for control of Sinaloa’s previously untouchable drug routes. While large cartels like Los Zetas – which suffered a decline following years of fighting the Sinaloa cartel, other rivals, and the Mexican government – are believed to lack the operational capacity or appetite for a powerplay, Felbab-Brown warns that drug-related violence will increase if smaller cartelitos see Guzman’s arrest as an opportunity to grow their enterprises.

Regardless of what might follow, both Starr and Felbab-Brown praise Guzmán’s capture and what it symbolizes in the global effort to tackle transnational organized crime.

Sources: June S. Beittel, *Mexico’s Drug Trafficking Organizations: Source and Scope of the Violence*, Congressional Research Service (April 15, 2013), pp. 9, 11-12; Vanda Felbab-Brown, *Calderon’s Calderon* (Sept. 2011), Latin America Initiative at Brookings, p. 3; Alicia A. Caldwell & Katherine Corcoran, *Mexico’s Sinaloa Drug Chief Arrested*, Associated Press (Feb. 22, 2014); Interview with Vanda Felbab-Brown (Feb. 24, 2014); Interview with Prof. Pamela Starr (Feb. 24, 2014); U.S. Department of Justice.

2. Asian and Eastern European Transnational Criminal Groups

Another type of transnational criminal organization is formed when criminals based abroad attempt to partner with their counterparts in U.S. immigrant communities in order to exploit access to U.S. markets and wealth. The result is a loose transnational confederation between a criminal ring abroad and an autonomous ring here in the U.S., tied together along ethnic lines. While much still remains unknown about these groups, many of them operate in California, which is home to large immigrant communities from around the world and a quarter of all immigrants who have come to the U.S.¹⁵

Eurasian transnational criminal groups arising from the 15 republics of the former Soviet Union and from central European countries maintain an active California presence in

areas including Burbank, Fresno, Glendale, Los Angeles, Sacramento, San Diego, and San Francisco. Known for their sophistication and violence, groups like Armenian Power are linked to cybercrime, financial fraud (such as identity theft and credit card crimes), auto theft, illegal gambling, and narcotics and human trafficking.¹⁶

Additionally, once confined to just a handful of urban areas with large Asian-American populations, Asian transnational criminal confederations, such as those involving the Tiny Rascal Gang and Asian Boyz, are expanding to communities in Fresno, Los Angeles, Orange, Sacramento, Santa Clara, and San Diego Counties where the growth in the number of new immigrants from Asia has been greatest. These criminal organizations engage in human and sex trafficking, drug and weapons smuggling, domestic marijuana cultivation, various forms of cybercrime, and even wildlife trafficking.¹⁷

Although tied together along ethnic lines, these confederations show little affection for those who share their ethnic identity when deciding whom to target. Indeed, immigrants who share ethnic ties with these criminal organizations are arguably the most vulnerable to victimization. For example, Armenian Power frequently targets members of the Armenian-American community for fraud and extortion, as it did in one Southern California fraud scheme described in Chapter Five. The special vulnerability of many immigrant communities underscores the urgent need for law enforcement to better understand Asian and Eastern European transnational criminal groups so that they can better protect some of California's most vulnerable citizens and residents.

3. Proliferation of Transnational Gangs

Transnational gangs are criminal street gangs operating in the U.S. with ties to gangs of the same ethnicity or nationality, or within the same umbrella gang, operating in other countries. They are linked to the prolific use of violence or the threat of violence to further their illicit activities in California. Like Mexico-based transnational criminal organizations, transnational gangs have exploited the benefits of an interconnected world to expand their increasingly sophisticated criminal activities to a global scale. While still principally engaged in narcotics trafficking (although on a smaller scale than Mexico-based drug trafficking organizations), these gangs deeply involve themselves in crimes ranging from money laundering and robbery to extortion and contract killings, as well as emerging crimes like intellectual property fraud and human trafficking. In addition to these profit-driven activities, transnational gangs perpetrate acts of violence to establish their reputation and status in California communities.

Transnational gangs vary in organizational sophistication, though they predominately follow a "hub and spoke" model, with a hierarchical, central point directing regional "clique" or "*clica*" leadership. They are increasingly working with other transnational criminal organizations, as well as California street and prison gangs (a dangerous union

examined in Chapter 3), and are coordinating their criminal activities across both state and international lines. The primary transnational gangs operating in California are:

- **Mara Salvatrucha (or the shorthand “MS-13”):** MS-13 is the largest and most violent transnational gang currently operating in California and has been recognized by the U.S. Department of Treasury as a transnational criminal organization. Originally founded in Los Angeles during the 1980s by Salvadoran immigrants, MS-13 began as an ethnic, protection-oriented street gang. A growing Salvadoran immigrant membership, coupled with mass deportations to Central America in the 1990s of MS-13 members convicted of certain crimes, helped transform this group into a transnational gang. According to recent U.N. estimates, MS-13 is now one of the world’s fastest growing criminal organizations, with an international membership of at least 30,000, including 8,000 members in El Salvador, 7,000 in Honduras, and 5,000 in Guatemala.¹⁸
- **18th Street Gang:** Another large criminal street gang, the 18th Street Gang was formed by Mexican immigrants in Los Angeles around 1959, with many members later deported in the 1990s to Mexico and Central American countries. Despite their similarities, the 18th Street Gang, sometimes referred to as M-18 or Barrio 18, is an historic rival of MS-13.

The 18th Street Gang is a large organization with an international membership well over 30,000. According to U.N. estimates, 14,000 to 17,000 members are based in Guatemala, 8,000 to 10,000 live in El Salvador, and another 5,000 reside in Honduras.¹⁹ Membership numbers in the U.S. are well into the thousands and cliques in different countries frequently collaborate or form alliances opportunistically. Similar to MS-13, the 18th Street Gang’s domestic operations are based in California, with the majority of their operations in the greater Los Angeles or Southern California region (although operations have also been observed in northern California). Gang members also maintain close relationships with Mexico-based transnational criminal organizations.

4. The Online Criminals: Transnational Hacking, Fraud, and Pirating Rings

With the rise of a global society connected by the Internet, criminal rings organized to commit hacking, fraud, pirating and other high-tech crimes across borders have rapidly proliferated. These rings operate frequently from Eastern Europe, but also from places as diverse as West Africa and China, and specifically target the citizens, computer networks, and companies of prosperous countries like the U.S. They vary widely in size, sometimes partnering with “locals” in the target country. Just as often, however, they feel little need to form local partnerships, since the Internet allows them to oper-

ate remotely, and a lack of a physical presence in the country they are targeting helps them more easily evade detection and criminal prosecution.

Like other transnational criminal organizations, transnational hacking, fraud, and pirating rings are profit-driven. But unlike cartels and gangs, these rings do not commonly employ fear, violence, and terror as tools in their arsenal. Instead, their success hinges on operating anonymously and surreptitiously, relying on sophisticated tactics to steal information, harvest money, and move money across jurisdictions into their own bank accounts.

Conclusion

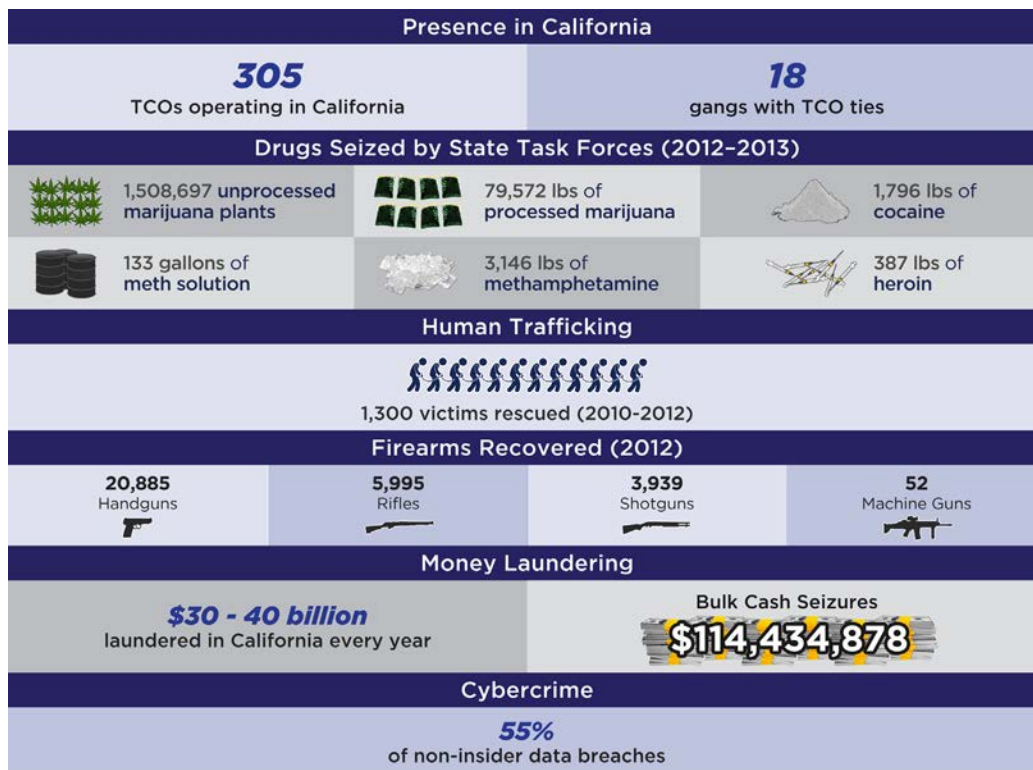
Transnational criminal organizations have used their adaptability and fluid organizational structures to expand their networks of criminal activity to every corner of California. Mexican drug cartels, particularly Sinaloa, have been most successful in embedding themselves into the fabric of our urban communities by forming alliances with prison and street gangs for protection and distribution of illicit goods. However, transnational gangs and other organized criminal rings also pose serious threats to the physical and financial well-being of Californians.



California: A Hub for Transnational Criminal Activity

California is a global leader on a number of fronts and, unfortunately, transnational criminal activity is one of them (Figure 4). In 2012 alone, 305 drug-related transnational criminal organizations were found operating in the state, including Mexico-based drug cartels in at least 22 cities from Northern California to the southern border.²⁰ Based in part on its population and network of interstate highways connecting the western U.S., California is a major portal through which drugs flow to other U.S. states and cities, as well as Canada. California is also the top state in the U.S. for human trafficking, due in part to its proximity to the U.S. southwest border, robust economy, and large immigrant population.²¹ Finally, with a gross domestic product of \$2 trillion and substantial international trade activity, California's economic and financial infrastructure is often targeted for transnational criminal money laundering schemes.

Figure 4
Impact of Transnational Criminal Organizations in California



Drug Trafficking Is the Most Profitable Transnational Criminal Activity in California

Mexico-based drug cartels generate billions of dollars annually by trafficking drugs into California, both for sale within the state and as a staging base for distribution around the country. As shown below in Figure 5, the distribution routes traditionally follow major interstate highways, which are the most efficient routes to California's major urban areas. Typically, narcotics flow from San Diego to Los Angeles, where they can either continue up the Interstate Highway 5 to the Bay Area and Sacramento or move eastward to various distribution points in the U.S. or Canada.

Figure 5
Primary Narcotics Trafficking Routes in California (2014)



Source: CA State Threat Assessment Center

Transnational Criminal Organizations Traffic Processed Marijuana

Marijuana continues to be the most commonly trafficked and used narcotic in California.²² As the Drug Enforcement Administration recently observed in its 2013 National Drug

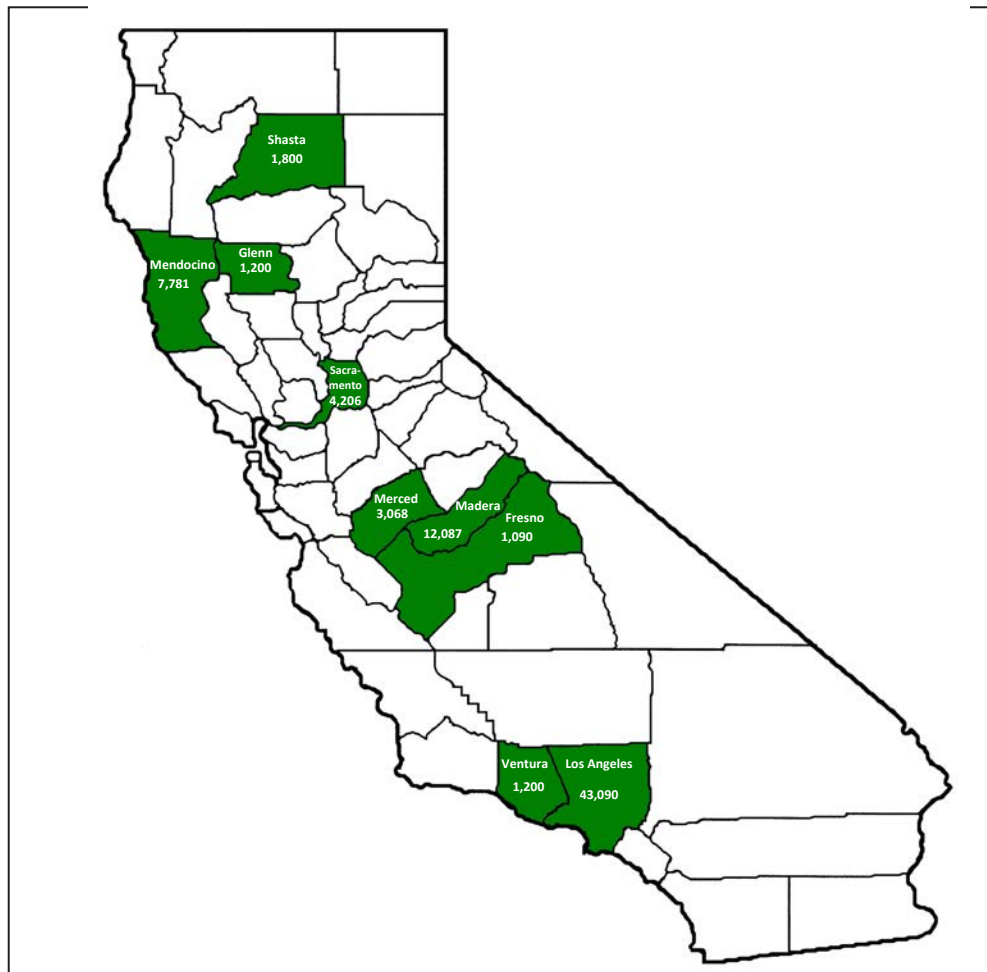
Threat Assessment, Mexican drug trafficking organizations such as the Sinaloa cartel continue to operate large outdoor marijuana growing fields in Mexico.

However, in response to interdiction efforts at the border, Mexican-based drug cartels are increasingly growing marijuana on public land in California. This is forcing California to contend with not only marijuana smuggled into the state, but also with marijuana grown in California for distribution to other parts of the U.S. where prices tend to be higher.²³



In June 2013, following a month-long investigation by special agents of the California Department of Justice, officials arrested four suspected Sureño gang members in Sacramento County and seized more than 7,000 marijuana plants and 100 pounds of processed marijuana with an estimated street value of \$2 million.²⁴

Figure 6
Counties with Task Force Seizures of Processed Marijuana
in Excess of 1,000 Pounds
(FY 2012-2013)



In the 2012-2013 fiscal year (from the beginning of July to the end of June), the central and southern parts of California accounted for the vast majority of processed marijuana seizures. Los Angeles County alone accounted for 54 percent (or 43,090 pounds) of statewide seizures.

Outdoor Marijuana Fields and Sophisticated Indoor Production Operations

The outdoor production of marijuana takes place primarily on public land in the Sacramento and San Joaquin Valleys, including within California’s national forests, and creates a host of problems within the state. Worker exploitation is common, as the growing areas are often operated by Mexican nationals who are smuggled into the country and then forced to work to pay off a smuggling debt.²⁵ In addition, outdoor marijuana fields produce significant environmental harms stemming from growers’ use of pesticides, rodenticides, and fertilizers on the crops to expedite the growing process and protect the crops from insects or wild animals.²⁶ Fires are also a threat particularly associated with outdoor cultivation. In August 2009, suspected Mexican drug trafficking organization workers tending to a 30,000-plant marijuana field in the Los Padres National Forest near Santa Barbara sparked a 136-square mile fire.²⁷

In 2012-2013, Northern and Central California represented the most significant hot spots for outdoor marijuana cultivation. Of almost 1.5 million plants seized by state and local law enforcement in 2012-2013, the top five counties accounted for over 45 percent of the total statewide seizures.

Figure 7
Task Force Seizures of Outdoor Marijuana

Counties With Most Seized Outdoor Marijuana (FY 2012-2013)	
1. Sacramento	181,541 plants
2. Madera	139,238 plants
3. Tulare	129,899 plants
4. Shasta	124,477 plants
5. Fresno	93,476 plants
Statewide Total	1,470,748 plants

Regional Impact: “The Inland Empire”

The Central Valley remained the primary hot spot for outdoor marijuana cultivation, accounting for a staggering \$7.52 billion in outdoor marijuana seizures. But the Inland Empire (Riverside and San Bernardino Counties), though not ranked among the most impacted counties, outpaced seizures in other traditional outdoor marijuana hot spots such as the “Emerald Triangle” (Mendocino, Humboldt, and Trinity Counties):

“Emerald Triangle”: 86,213 plants seized
 “Inland Empire”: 142,515 plants seized

In response to demand for high-grade marijuana (which can sell for up to 30 times the price of low-grade marijuana), Mexico-based drug trafficking organizations, as well as Asian organized crime groups, are growing increasing amounts of high-grade marijuana in indoor facilities in Alameda, Santa Clara, San Benito and Merced counties, and in Mexico. The state is also experiencing heavy indoor marijuana cultivation activity in the Bay Area, which law enforcement has attributed to the growing presence of Asian transnational criminal organizations like the Asian Warriors.²⁸ The top six counties account for approximately 80 percent of statewide totals, with Alameda, Santa Clara, and San Benito counties making up three of these jurisdictions.

Figure 8
 Task Force Seizures of Indoor Marijuana

Counties With Most Seized Indoor Marijuana (FY 2012-2013)	
1. Shasta	11,138 plants
2. Mendocino	5,211 plants
3. Merced	4,155 plants
4. Alameda	3,541 plants
5. Santa Clara	3,153 plants
6. San Benito	2,937 plants
Statewide Total	37,949 plants

Transnational Criminal Organization Methamphetamine Trafficking Is on the Rise in California

California has also witnessed an increase in recent years in the availability of wholesale methamphetamine, particularly its most potent form, “ice,” with the Sinaloa cartel driving supply.²⁹ California is now the primary source for methamphetamine nationwide with as much as 70 percent of the U.S. foreign supply of methamphetamine being trafficked through the San Diego point of entry alone.³⁰ Mexican drug trafficking organizations obtain multi-ton shipments of precursor chemicals, such as ephedrine and pseudo-ephedrine, from countries without strict chemical export regulations, like China or India. They then produce increasing amounts of methamphetamine in large “superlabs” inside Mexico,³¹ a substantial percentage of which is destined for California.



On October 8, 2013, agents from the Department of Justice-run Inland Crackdown Allied Task Force arrested four suspected members of La Familia Michoacána in San Bernardino County after seizing more than 100 pounds of methamphetamine, 9 pounds of cocaine, and half a pound of heroin. The street value of these narcotics totaled nearly \$6 million.³² Officials alleged that transnational criminal organization members imported the drugs from Mexico and then distributed them to street gang dealers in California and other states.

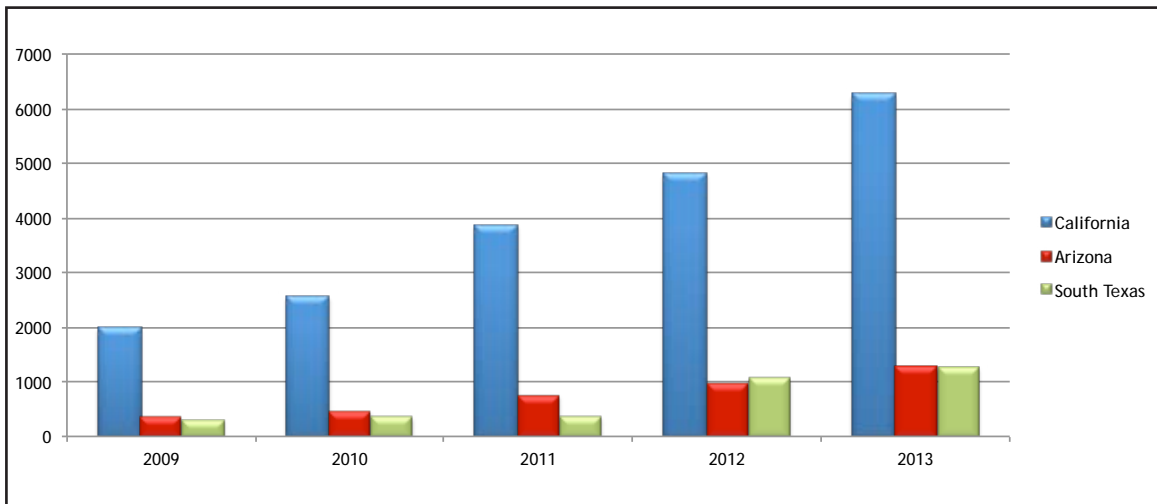
La Familia Michoacána (LFM)

With historic roots in Michoacán, Mexico, where it began as a vigilante group, this Mexican drug trafficking organization is known for its use of extreme violence and pseudo-religious propaganda to justify its criminal activities. Prior to the recent establishment of Sinaloa’s near monopoly on the U.S. illicit drug market, LFM was mainly associated with large-scale methamphetamine trafficking in California’s Central Valley as well as outdoor public land marijuana fields in national forests throughout the state. However, due in part to the reported December 10, 2010, death of LFM’s main leader, Nazario Moreno Gonzalez, in a two-day firefight with the Mexican Federal Police, LFM has been significantly weakened in both Mexico and California.

Source: June S. Beittel, *Mexico’s Drug Trafficking Organizations: Source and Scope of the Violence*, Congressional Research Service (Apr. 15, 2013), pp. 17-18.

According to the Office of National Drug Control Policy’s National Methamphetamine and Pharmaceuticals Initiative, seizures of methamphetamine at points of entry along the U.S. southwest border have increased steadily over the past four years. As noted in Figure 9, methamphetamine seizures at California points of entry have more than tripled between 2009 and 2013 and now dwarf seizures in our sister border states.

Figure 9
Southwest Border Methamphetamine Seizures at Points of Entry (Kilograms)
(2009-2013)



Source: CA State Threat Assessment Center (data from Office of National Drug Control Policy, National Methamphetamine and Pharmaceuticals Initiative)

Once “ice” has been smuggled into the state, two counties are now the destinations of choice for distribution. In 2012-2013, Los Angeles County in the south and Merced County in the Central Valley accounted for more than 66 percent of the “ice” seized in California (Figure 10).

Figure 10
Task Force Seizures of Ice

Counties With Most Seized Ice (FY 2012-2013)	
1. Los Angeles	1,605 lbs.
2. Merced	475 lbs.
3. Fresno	206 lbs.
4. Riverside	196 lbs.
5. Orange	177 lbs.
6. San Mateo	177 lbs.
Statewide Total	3,146 lbs.

In other schemes, transnational criminal organization operatives refine methamphetamine in labs here in California, a majority of which can be found in the Central Valley. As with the cultivation of marijuana, these methamphetamine labs can cause severe environmental damage by contaminating manufacturing locations with hazardous chemicals. But meth labs pose an additional risk as well: they expose Californians to the potential for explosions due to the hazardous, often flammable, chemicals used to make methamphetamine. For example, in March 2012, officers in search of a stolen Apple iPad entered a San Jose apartment³³ only to discover it was being used as a “refining lab” by a suspected Mexico-based transnational criminal organization to convert unrefined methamphetamine into the highly dangerous crystal methamphetamine.³⁴ Subsequent testing revealed extensive contamination of both the apartment and adjacent residential units, which required substantial decontamination efforts.³⁵

The rise in methamphetamine trafficking by drug cartels reinforces the need for robust funding for law enforcement. In this regard, federal funding is critical. In the Consolidated Appropriations Act of 2014 (Public Law No. 113-76), Congress approved Fiscal Year 2014 appropriations totaling \$7.5 million toward the creation of a methamphetamine grant program. This timely and innovative program – which will be administered by the Community Oriented Policing Services Office in the U.S. Department of Justice – provides for competitive grants to state law enforcement agencies to combat methamphetamine production and trafficking in their states. The California Attorney General’s Office and other state and national law enforcement leaders – including those from Alabama, Kentucky, Mississippi, Missouri, Tennessee and the National Narcotic Officers’ Association Coalition – developed and advocated for the program’s creation. And with the support and leadership of California’s congressional delegation, states received a critical federal funding stream to further fight the drug cartels’ lucrative methamphetamine trafficking trade. For California, this grant opportunity comes at an important time when an aggressive law enforcement response is vital to effectively combatting transnational criminal organizations.

Trafficking of Prescription Drugs Across the California-Mexico Border Has Increased, While Cocaine Trafficking Has Decreased

As prescription drug abuse becomes one of the fastest growing drug problems in California and across the country, law enforcement officials have observed an increase in the trafficking of pharmaceutical drugs (such as Hydrocodone, Oxycodone, Ritalin, Xanax, Morphine, Alprazolam, Diazepam, and Benzodiazepine) across the California-Mexico border.³⁶ In some of these schemes, Mexican pharmacies fill prescriptions without a legitimate prescription and the drugs are smuggled into California. The drugs are then packaged and shipped via commercial mail services, frequently to customers who ordered the drugs over the Internet.³⁷ In recent years, border agents have seen an uptick in seizure incidents involving prescription drugs.



On September 11, 2012, border agents seized 637 Hydrocodone tablets, 198 Oxycodone tablets, 120 Ritalin tablets, 56 Morphine tablets, and \$1,406 in U.S. currency when they stopped two women at the San Ysidro border crossing.³⁸ The women admitted that they were working with a Mexico-based transnational criminal organization that took orders over the Internet for prescription drugs, smuggled them from Tijuana to San Diego, and then shipped them throughout the U.S.³⁹ Such seizures have become commonplace.⁴⁰

In other schemes, stolen or illegally-acquired prescription drugs are smuggled out of California to Mexican pharmacies for distribution by drug trafficking organizations in Mexico or back to the U.S. market.⁴¹



In August, 2011, officials broke up such a ring with the arrest of 15 individuals operating a large U.S.-Mexico drug trafficking organization.⁴² The group would acquire wholesale quantities of controlled pharmaceutical drugs such as OxyContin and Hydrocodone, and smuggle them to Mexico for sale. The cash was then brought back into the United States to finance criminal operations.⁴³ Border stops throughout the two-year investigation resulted in the seizure of 1,288 OxyContin pills, 9,500 Hydrocodone pills, and more than \$66,000 in U.S. currency.⁴⁴

While these narco-trafficking trends reflect a growing diversification of transnational criminal organizations, California has experienced a decline in the trafficking of cocaine into the state. Although Mexico-based drug trafficking organizations remain the primary wholesale suppliers of cocaine in the U.S., they have reduced their trafficking efforts in recent years as nationwide usage and demand have declined.⁴⁵ For example, cocaine seizures decreased by 50 percent in California in the last year, though county-level seizure data shows that cocaine remains a substantial problem in California. Los Angeles County topped the list with over 58 percent of statewide seizure totals.

Figure 11
Task Force Seizures of Cocaine

Counties With Most Seized Cocaine (FY 2012-2013)	
1. Los Angeles	1048 lbs.
2. Imperial	457 lbs.
3. Riverside	135 lbs.
4. Fresno	68 lbs.
Statewide Total	1,796 lbs.

Trafficking Humans Is Almost as Profitable as Trafficking Drugs

Transnational criminal organizations and gangs are also finding human trafficking to be a lucrative and growing criminal enterprise. In fact, human trafficking is believed to be one of the most profitable criminal activities, with estimates of profit ranging from \$13,000 annually per forced laborer to as much as \$100,000 or more annually per sex trafficking victim. According to the latest estimates from the U.S. Department of State, 27 million people are trafficked each year worldwide, with 18,000 to 20,000 victims in the U.S. alone.⁴⁶ Based on these figures, revenue from human trafficking could be as high as \$32 billion per year worldwide and at least \$9.5 billion annually in the U.S.⁴⁷ Transnational criminal organizations are motivated not only by these high profits, but also by a frequently held notion among criminals that human trafficking carries with it a lower risk of detection, allows for the renewable exploitation of their human “commodities,” and risks lighter criminal punishment than narcotics trafficking.

Types of Human Trafficking

Sex Trafficking

Sex trafficking is the act of forcing, coercing, or transporting a person for the purpose of a commercial sex act. These crimes are primarily committed against women and children. Sex trafficking can occur in residential brothels, brothels disguised as massage parlors, strip clubs, and via online escort services and street prostitution.

Labor Trafficking

Labor trafficking is the act of forcing a person to work for little or no money. It can include forced labor in underground markets and sweatshops, as well as legitimate businesses such as hotels, factories, restaurants, construction sites, farming, landscaping, nail salons, and traveling sales crews.

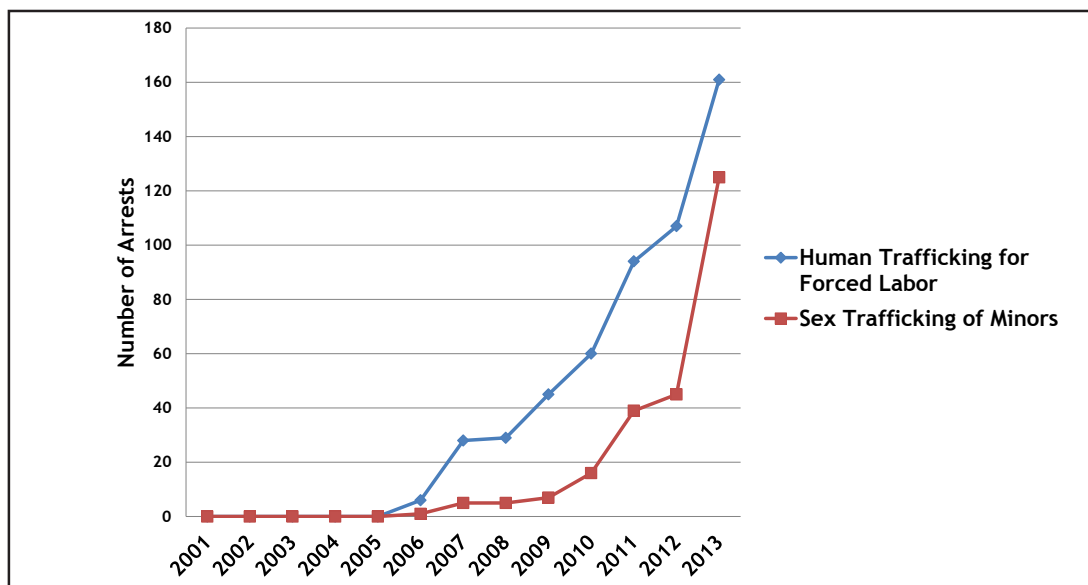
Domestic Servitude

A form of labor trafficking, domestic servitude often involves women who are forced to live and work in the homes of employers who confiscate their legal documents and prevent them from leaving. Domestic workers can be U.S. citizens, lawfully-admitted foreign nationals, or undocumented immigrants.

Source: Office of the Attorney General, *The State of Human Trafficking in California* (2012).

As highlighted in the California Department of Justice’s *The State of Human Trafficking in California, 2012*, California is one of the states most affected by human trafficking, due in part to its proximity to the U.S. southwest border, its robust economy, and a large immigrant population.⁴⁸ Over the past two years, California’s nine regional Human Trafficking Task Forces identified more than 1,300 human trafficking victims,

Figure 12
Human Trafficking Arrests Under California Law
(2001-2013)



Source: CA State Threat Assessment Center; CA DOJ, California Justice Information Services

though the actual number of victims statewide is almost certainly significantly larger.⁴⁹ A majority of these victims, approximately 56 percent, were trafficked for the purpose of sexual exploitation, while 21 percent were destined for forced labor.⁵⁰ Largely due to increased public and law enforcement awareness of the issue, arrests under two key human trafficking statutes – human trafficking for forced labor (CA Penal Code, §236.1(a)) and sex trafficking of minors (CA Penal Code, §236.1(c)) – have increased exponentially in the past six years, as shown in Figure 12.

Virtually all types of transnational criminal organizations in California participate in human trafficking in one form or another. Asian and Eurasian transnational criminal rings and gangs like the Asian Gangsters and Armenian Power are key facilitators of domestic and international human trafficking in California, particularly sex trafficking. They typically traffic victims of a similar ethnic background, using their cultural knowledge and ties to ethnic communities to their advantage.



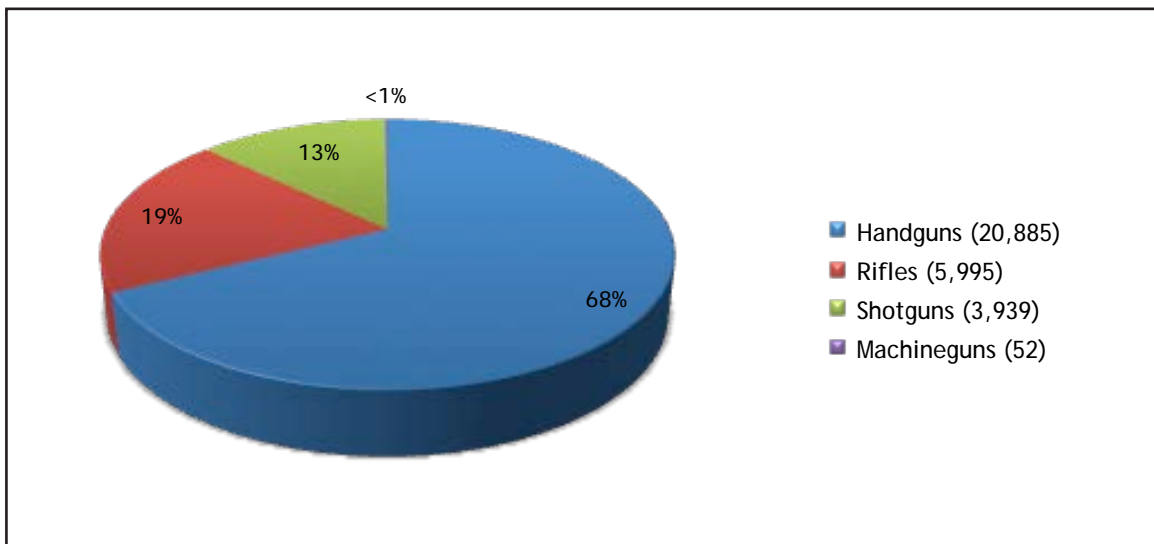
In January 2013, special agents from the California Department of Justice, building off an investigation by the FBI, arrested five suspects accused of running a human trafficking network that spanned several northern California counties. Young women, aged 21 to 30, were trafficked from Mexico and sold for sex to as many as 20 clients in a single day. The sex acts occurred in brothels identified in Chico, Stockton, Yuba City, Fairfield, and Sacramento. In May 2013, three of the men pleaded no contest to conspiracy to commit pimping and pandering charges and were sentenced to three years in prison.⁵¹

California Is a Gateway in the Criminal Firearms Trade

Increasingly, firearms are being trafficked through California to Mexico-based transnational criminal organizations. Growing narcotics-related violence in Mexico since 2006 and the needs of Mexican criminal organizations to control lucrative drug trafficking routes, combined with restrictive firearms laws in Mexico, have led these organizations to source firearms outside of Mexico.⁵² These organizations, specifically the Sinaloa cartel, Los Zetas, and the Gulf cartel, are the leading weapons traffickers in the U.S. They utilize their existing U.S.-based narcotics trafficking and money laundering infrastructures to facilitate weapons trafficking back to Mexico, with firearms frequently trafficked by the same couriers through the same routes.⁵³

A recent study estimates that 252,000 guns cross the U.S.-Mexico border each year, with fewer than 15 percent seized.⁵⁴ Although the firearms are not necessarily purchased in California due to California's own robust gun laws, this state is increasingly the gateway through which Mexico-based transnational criminal organizations move weapons obtained in other states via straw buyers to Mexico, making reverse use of existing drug trafficking routes.⁵⁵ For example, over 20,000 firearms – predominantly handguns – were recovered in California in 2012 alone (Figure 13). These numbers are consistent with seizures in past years. These statistics signal the existence of a vast pool of weapons that could be at risk to enter the global arms trade.

Figure 13
Total Number of Firearms Recovered in California (2012)

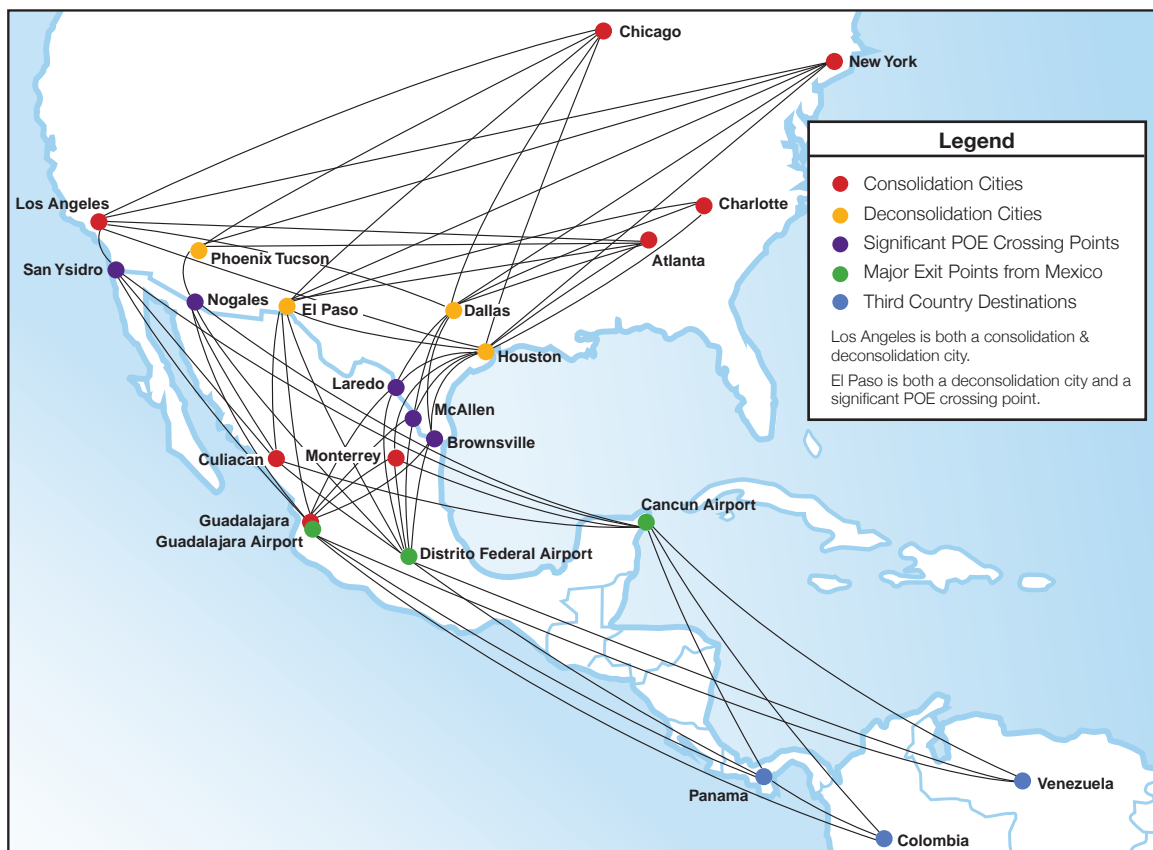


Source: CA State Threat Assessment Center (data from U.S. DOJ, Bureau of Alcohol, Tobacco, Firearms and Explosives)

Money Laundering Corrupts California's Economy

Just as California is a key portal for drugs to flow into the U.S. and Canada, it is also at the center of the reverse flow of billions of dollars of illicit bulk cash proceeds generated by transnational criminal organizations and their criminal associates. According to the El Paso Intelligence Center (EPIC), a federal central clearinghouse of data on currency and narcotics seizures, California is one of the top two states in which narco-dollars are seized and to which seized narco-dollars are destined.⁵⁶ As Figure 14 shows, cash is smuggled from California back to Mexico or points farther south – often through the same trafficking routes through which drugs, humans, or weapons were originally smuggled – or is laundered through any number of fraudulent schemes.⁵⁷ The flow of this illicit money not only fuels ongoing operations of transnational criminal organizations, but also supplies them with the means to expand and extend their influence across the globe.⁵⁸

Figure 14
Bulk Cash Hubs and Routes



Source: U.S. Department of Homeland Security, *U.S.-Mexico Bi-National Crime Proceeds Study* (2010)

Money laundering is, by definition, a process designed to mislead law enforcement and mischaracterize the source and origin of the financial proceeds resulting from criminal activities, or "dirty money." The process typically begins by breaking up large amounts of money into smaller, less conspicuous sums, which are then deposited, or "placed," within the financial system. Through "layering," the money launderer then engages in transactions designed to distance the money from its original illicit source. For example, the funds might be wired through a series of shell corporation accounts

Figure 15
Typical Money Laundering Scheme



at various banks around the country, or disguised as payments for non-existent goods or services. Finally, to complete the laundering process, the funds are invested in assets such as real estate or business ventures, and thereby “integrated” into the legitimate economy.⁵⁹ To avoid detection by law enforcement, transnational criminal organizations frequently change tactics and engineer new schemes. They also outsource certain functions, such as the transportation and laundering of illicit proceeds, to other entities to minimize risk of loss or apprehension.⁶⁰

The Race Horses of Los Zetas

In 2012, federal money laundering charges were brought against brothers Miguel Angel Treviño Morales and Oscar Omar Treviño Morales, reputed leaders of Los Zetas, and others. Together with a brother who resided in the U.S., the Treviños used more than 400 American Quarter Horses, along with ranch properties, to launder tens of millions of dollars in Zetas drug proceeds.

Since horse racing is legal, the drug money was cloaked in the guise of legal assets. Moreover, because the highly prized horses could be easily sold, the assets could be converted into cash whenever necessary. The Quarter Horses also generated legitimate-looking income in the form of horse race winnings during the inter-



vening time period. Various shell companies and fictitious persons were used to further disguise the cartel members’ connection to the horses, with business affairs of the horse operation extending into California, New Mexico, Texas, and Oklahoma. So far, at least three people have been convicted and sentenced to prison, including the U.S.-based brother, Jose Treviño

Morales. The defendants have also been ordered to forfeit property worth \$60 million, which represents the amount of money traceable to their laundering activities.

Source: *U.S. v. Miguel Angel Treviño Morales*, (W.D. Tex. Dec. 4, 2012), Case No. A-12-CR-210SS; U.S. Attorney’s Office, Western District of Texas, *Federal Prison Terms Handed Down in Multi-Million Dollar Money Laundering Conspiracy Involving Los Zetas Drug Trafficking Proceeds, Extortion and Bribery* (Sept. 5, 2013); U.S. DOJ, Federal Bureau of Investigation.

Both federal and California law target money laundering by criminal enterprises. Some provisions prohibit financial transactions involving funds associated with illegal activities.⁶¹ Other provisions criminalize the mere possession or transportation of illicit drug proceeds.⁶² Both federal and state law also impose reporting requirements on financial institutions with respect to large transactions. For example, federal law requires financial institutions to report to financial regulators all currency transactions over \$10,000, as well as multiple currency transactions that aggregate to be more than \$10,000 in a single day.⁶³ And both federal and state law make it a crime to break up or “structure” financial transactions into amounts smaller than \$10,000 for the purpose of avoiding federal mandatory reporting requirements.⁶⁴

Yet, in addressing “structuring,” there is an important difference in the legal tools that federal and state prosecutors can bring to bear. Whereas federal law does not require that the structured transactions be intended to hide the fact that money came from criminal activities or facilitates criminal activities,⁶⁵ California law requires that state prosecutors prove a money launderer intentionally structured a financial transaction to disguise that the proceeds were derived from a criminal activity or, alternatively, were structured to promote or further criminal activity.⁶⁶ That additional requirement imposes a special burden on California prosecutors, often obstructing successful prosecution. As discussed in this Report’s Recommendations (Chapter Six), California law should be amended to remove this special burden.

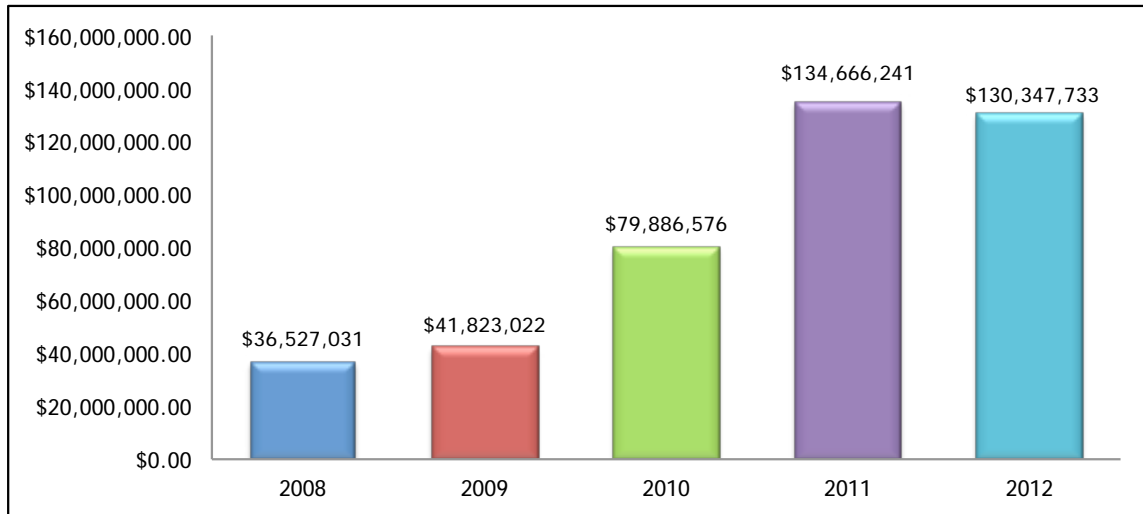
Scope of the Money Laundering Problem in California

The true scope of the money laundering problem in California is unknown. However, some experts estimate that approximately 1.5 to 2 percent of gross domestic product (“GDP”)⁶⁷ is laundered annually.⁶⁸ Based on California’s \$2 trillion GDP in 2012,⁶⁹ approximately \$30-40 billion could have been laundered in the state in 2012.

Uncertainty also plagues estimates of the amount of illicit cash proceeds smuggled from the U.S. to Mexico every year. Estimates range from \$18 billion to as much as \$39 billion.⁷⁰ For its part, California leads the nation in the number of seizures of currency, commonly referred to by law enforcement as “bulk cash.”⁷¹ The seizures of bulk cash increased by 40% in 2011 and remained relatively consistent in 2012 (Figure 16), possibly reflecting law enforcement’s success in better detecting currency flowing over the border.

In 2010 and 2012, Mexico enacted a number of anti-money laundering provisions to combat the flow of illicit cash from the United States into Mexico by limiting foreign currency cash transactions. As a result of Mexico’s enhanced efforts to combat money laundering, drug trafficking proceeds are now reportedly returning to the United States through ports of entry along the Mexican border, from San Ysidro to Calexico.⁷²

Figure 16
Bulk Cash Seizures in California



Source: CA State Threat Assessment Center (data from EPIC)

Federal sources and California financial crime investigators along the border have noted a substantial increase in cash imports from Mexico at certain points of entry in Southern California.⁷³ Individuals, claiming to be employees of money service businesses in Mexico (commonly referred to as *casas de cambio*), with substantial amounts of bulk cash in duffle bags and backpacks have been witnessed crossing into California from Mexico. After declaring the amount of cash the individual is bringing into California to Customs and Treasury officials, the individual goes directly to nearby financial institutions, kiosks, or ATMs to deposit the imported bulk cash.⁷⁴ These trends underscore the need for better cooperation among financial regulators and law enforcement from the federal government, California, other states, and Mexico. This Report's Recommendations urge these officials to develop protocols to more effectively share information and intelligence that could be used to disrupt illicit cross-border financial flows. The Recommendations also emphasize the need to leverage existing partnerships for cooperation, such as the Southwest Border Anti-Money Laundering Alliance. The Attorneys General of California, Arizona, New Mexico, and Texas established the Alliance in 2010 to enhance and better coordinate investigations and intelligence sharing related to money laundering in the U.S.-Mexico border region.⁷⁵

Asset Forfeiture: A Critical Weapon to Fight Money Laundering

The seizure of laundered money is essential to disrupting and dismantling transnational criminal operations. Currently, two provisions in California law enable state authorities to seize laundered money:

- **Criminal Asset Forfeiture Provision:** Money, monetary instruments, and property derived from criminal profiteering are subject to forfeiture under the California Control of Profits of Organized Crime Act. (Penal Code, §§ 186–186.8.)
- **Civil Narcotics-Related Asset Forfeiture Provision:** Money or other things of value (including real property) used to procure controlled substances or to facilitate specified narcotics offenses are subject to civil asset forfeiture. (Health & Safety Code, § 11470.)

Significantly, both of these provisions permit the seizure of criminal proceeds and assets only *after* the commencement of formal legal proceedings, such as the filing of a criminal complaint or indictment. This loophole allows transnational criminal organizations to safely remove assets that have been discovered by law enforcement, so long as formal legal proceedings have not yet begun. As discussed further in this Report's Recommendations (Chapter Six), this loophole must be closed. New legislation should amend California law to permit law enforcement to temporarily freeze an organization's illicit proceeds or property even if no formal prosecution has commenced yet.

Conclusion

California has emerged as the epicenter of transnational criminal organization activity in the United States. This is due, in part, to a crackdown by the Mexican government on drug cartels and the resulting fragmentation of the trafficking market, with Sinaloa emerging as the dominant Mexico-based drug trafficking organization operating in California. Sinaloa has fueled methamphetamine and marijuana smuggling from Mexico, but domestic cultivation and production of both drugs in California has increased as well. Transnational criminal organizations are also facilitating weapons and human trafficking into and around California and are corrupting regional marketplaces and financial institutions through their multi-billion dollar money laundering practices.



Transnational Criminal Organizations and California Gangs: A Growing Threat to Public Safety

The presence of transnational criminal organizations in California exacts a heavy price on the state. Transnational criminal organizations contribute significantly to violence and criminal activity here, much of it drug- or gang-related. The partnering between Mexico-based drug trafficking organizations and California's street and prison gangs has spread those problems throughout the state. Due in part to their coordination with Mexican trafficking organizations, street and prison gangs now account for an average of 48 percent of violent crime in many jurisdictions around the country and up to 90 percent in high trafficking regions along the U.S.-Mexico border, such as Arizona, California, and Texas.⁷⁶ With gang membership up 40 percent nationally between 2009 and 2011, California is at risk for violent crime, particularly assault, extortion, home invasion robberies, homicide, intimidation, shootings, and other violence associated with transnational criminal activity, as well as an increase in arrests for human trafficking offenses and significant seizures of drugs, weapons, and cash.⁷⁷ Even Mexico's efforts to crack down on drug trafficking below the border have further fragmented drug trafficking organizations and spurred an increase in narcotics-related violence, some of which has spilled over into California.

This drug trafficking and increased gang activity, as well as the violence such activity breeds, pose a serious public safety threat to Californians, particularly our youth. One Center for Disease Control and Prevention study found that 61 percent of 15- to 24-year-olds murdered in the City of Los Angeles between 2003 and 2008 were victims of gang violence.⁷⁸ In the City of Long Beach, the rate was almost 70 percent.⁷⁹ Moreover, a 2006 report from the California Department of Alcohol & Drug Programs found that the percentage of Californians using illicit drugs was 18 percent above the national average. More people died from drug abuse in California that year (4,290) than from any other preventable cause that year, including motor vehicle accidents (3,293) and firearms (3,094).⁸⁰ With about 40,000 drug-related emergency room visits every year, and an estimated \$22.1 billion economic impact (when factoring in lost productivity, health care costs, prevention and treatment costs, criminal justice costs, and losses due to crime), illicit drug use poses a significant threat to California and its people.⁸¹ The problem is of particular concern to California communities already facing significant challenges from poverty, homelessness, domestic gang activity, and high crime rates.⁸²

California Faces a Unique Threat of Spillover Violence from Mexico

Some reports suggest that the crackdown on large drug cartels in Mexico has sparked a rash of violence between cartels and the government and between rival *cartelitos*. Some of the violence has spilled over into border states like California. Out of this has emerged “a new generation of criminals, younger and more willing to break with the discipline maintained by traditional structures.”⁸³ According to data released by the administration of former Mexican President Felipe Calderón, there were more than 47,500 organized crime-related homicides between December 2006 and September 2011, with a particular spike in violent crime in Juárez and Tijuana.⁸⁴ Other estimates place the number of homicides during the Calderón

Spillover Violence in California: The Los Palillos Transnational Criminal Organization

Fragmentation and intra-organization violence spawned cross-border formation of a new transnational criminal organization and violence in the San Diego border region. In 2002, Victor Rojas was a lieutenant in the Arellano-Félix Organization and was in charge of an enforcement cell that extorted, robbed, murdered and kidnapped people in Tijuana as part of the drug cartel operations. Victor’s younger brother, Jorge, became a valuable and trusted member of the enforcement cell.

After his brother was killed by members of his own organization, Jorge Rojas fled Mexico to San Diego, where he re-established ties with associates with whom he had worked in the enforcement cell. Rojas became the leader of a new U.S.-based transnational criminal organization, Los Palillos, a rogue crew of drug traffickers, kidnappers, and murderers. Los Palillos were motivated by revenge and greed, and targeted victims who were believed to be linked to the Arellano-Félix Organization and to have large amounts of cash or drugs. Los Palillos’ murders were particularly gruesome – multiple bodies shot, beaten and stuffed into SUVs and trunks of cars, and others dissolved in 55-gallon barrels filled with muriatic acid and caustic soda.

The San Diego District Attorney has charged defendant Jorge Rojas, leader of Los Palillos, with nine murders with special circumstances, making him eligible for the death sentence. Fourteen other alleged Los Palillos defendants are charged with at least one murder with special circumstances, also making them eligible for the death penalty. Three other defendants have pled out or were convicted at trial and sentenced to life without possibility of parole. On January 16, 2014, Rojas was convicted on four of the murder counts, while another member of Los Palillos, Juan Estrada-Gonzalez, was convicted on six counts of murder. The jury also found true special circumstance allegations in both cases, making Rojas and Estrada-Gonzalez eligible for the death penalty.

Source: *People v. Rojas, et al.*, (San Diego County Superior Court), Case No. SCD208824 - Information sourced from People’s Trial Brief, Group A.

administration at closer to 65,000, or roughly 10,000 per year.⁸⁵ This violence has also spilled over the border, with conflicts between Mexican drug trafficking organizations resulting in homicides and kidnappings in California, Texas, and Arizona. Some analysts fear that the recent arrest of Sinaloa front man, Joaquín “El Chapo” Guzmán Loera, will destabilize the power structure and lead to increased violence in the Tijuana Corridor and beyond.



In February 2011, dozens of agents from the California Department of Justice arrested three defendants in Palmdale, California, in connection with a murder-for-hire plot. The defendants, Jorge Ernesto Sillas Rocha, Victor Manuel Magana Gonzalez, and Daniel Cepallo, were hired to assassinate five family members in California in retaliation for a trafficking-related financial debt owed to the Arellano-Félix Organization (“AFO”). The hit men were hired by Juan Francisco Sillas Rocha, a high-ranking AFO lieutenant apprehended by Mexican federal authorities in Tijuana in late 2011. In late 2013, the San Diego District Attorney’s Office, which prosecuted this case, obtained convictions and sentences of incarceration for all three defendants (Sillas – 21 years; Magana – 15 years; and Cepallo – 5 years).⁸⁶



In July 2010, Mexican authorities arrested two members of the Barrio Azteca gang, an El Paso-based street gang. They were accused of killing a U.S. consulate employee and her husband across the border in Juarez, Mexico, on behalf of the Juarez Cartel. 52 other gang members were also arrested in connection with the murders.⁸⁷ On this side of the border, a U.S. border agent was shot and killed by traffickers in a Sinaloa-controlled drug corridor near Nogales, Arizona in December 2010.⁸⁸

California Is Threatened by the Alliance of Transnational Criminal Organizations with Prison and Street Gangs

In recent years, law enforcement officials in California have witnessed a disturbing new trend: increasing partnerships between transnational criminal organizations (particularly Mexico-based drug trafficking organizations) and prison gangs, like the Mexican Mafia, and Sureño street gangs. These alliances offer significant benefits to both parties. For the cartels, a partnership with a local gang in California allows them to:

- Coordinate the distribution of illicit goods in California without having to set foot on U.S. soil (and thus without placing themselves within the jurisdiction of U.S. law enforcement).
- Use gangs to collect drug proceeds, act as enforcers, launder money, smuggle weapons, commit kidnappings, and identify and scout possible undeveloped profit-generating criminal ventures.
- Use gang members who are U.S. citizens to cross the border with less law enforcement scrutiny.

- Take advantage of street gangs' detailed knowledge of their respective areas, connections to networks for the distribution and retail sale of illegal drugs, existing transportation routes (in the case of outlaw motorcycle gangs), familiarity with law enforcement tactics, and ability to respond quickly and effectively to changing local conditions.⁸⁹
- Establish redundancies or alternative partnerships designed to minimize disruptions to operations resulting from law enforcement actions.

In exchange for their assistance, prison and street gangs are given a share of the drug proceeds and are allowed to bypass mid-level wholesale dealers and receive discounts of up to 50 percent on bulk drug purchases.

The Mexican Mafia: A Threat Inside and Outside of Prison

The Mexican Mafia (also known as "La Eme") is a prison gang founded in the 1950s to protect incarcerated Hispanic street gang members. By use of violence, the Mexican Mafia eventually gained power and control over illicit activities in the California prison system and currently controls much of the distribution of drugs in state prisons, county jails, and even in some federal prisons in California. As members were released from prison, they extended their influence outside of prison to control drug distribution, provide protection for affiliates, secure trafficking routes, and tax local dealers.

La Eme's current affiliates include:

- MS-13, whose name is actually a reference to "La Eme," the 13th letter in the alphabet.
- Sinaloa and La Familia Michoacána cartels.
- Southern California Sureño gangs, including Westside and Diablos of Escondido (San Diego County); Florencia 13 (F-13) gang (Los Angeles County), under the supervision of Arturo Castellanos, a Mexico Mafia member and the leader of F-13, who is serving a life term in Pelican Bay State Prison; 38th Street gang (Southeast Los Angeles); and Logan Heights, Del Sol, Lomita Village 70's, Shelltown, Southeast Locos, and Old Town National City gangs.

The Mexican Mafia's chief rival is La Nuestra Familia/Nuestra Raza – a prison gang with approximately 2,000 members in California prisons that exerts control over Northern California Hispanic ("Norteno") street gangs. However, Nuestra Familia has been significantly weakened by a number of recent law enforcement operations.

Sources: Indictment, *U.S. v. Rodriguez-Landa* (C.D. Cal. 2013), Case No. CR-13-0484; Indictment, *U.S. v. Laredo, et al.* (C.D. Cal. 2013), Case No. CR-13-0537.

Although transnational criminal organizations typically prefer to partner with gangs of the same ethnicity, they have consistently demonstrated that profits come above all else. Thus, they will sometimes partner with the criminal organizations that best achieve their goals regardless of their initial racial or ethnic preferences. Examples of ethnically-similar and dissimilar unions include:

- **Sinaloa** works with the Mexican Mafia, Sureños gangs, and transnational gangs like MS-13.⁹⁰
- **La Familia Michocána** has ties to numerous types of gangs with diverse ethnic backgrounds: criminal street gangs (Bloods, Crips, Avenues, Norteños, and Sureños), prison gangs (Aryan Brotherhood, the Mexican Mafia, and La Nuestra Familia), and traditionally-white motorcycle gangs like the Hells Angels and Outlaw Motorcycle Gangs.
- **Aryan Brotherhood** is affiliated with the Mexican Mafia and Arellano-Félix Organization in drug, weapons, and stolen vehicle trafficking.⁹¹
- **MS-13** and other transnational gangs have become central players in narcotics and human trafficking in California, partnering with Mexico-based transnational criminal organizations and Sureños gangs to facilitate cross-border smuggling of people and drugs, sell drugs on the retail market, perform contract killings, and launder the proceeds through seemingly legitimate local businesses.⁹²
- **Tiny Rascal Gang**, which was originally a gang of Cambodian juveniles, has grown to include Filipinos, Latinos, and African Americans. Their allies include Asian groups, such as Wah Ching, which originated in San Francisco in the early 1960s and is now one of the largest and most ruthless Chinese transnational criminal organizations operating in the U.S.⁹³
- **Asian transnational criminal organizations** from Southeast Asian counties like Vietnam and Malaysia have ties to Asian street gangs operating in Santa Clara County, like the Asian Boyz, Asian Warriors, and Asian Gangsters.

Sureños

Sureño street gangs are Hispanic gangs that have traditionally been active in Southern California. On the streets, each gang (or “clique”) maintains its own identity and is organizationally separate from other Sureños gangs. However, they are interconnected through their common loyalty to the Mexican Mafia on the streets and in prison. In recent years, Sureño gang activity has expanded into northern California and other western states, often sparking violent conflicts with existing gangs.

Source: National Gang Intelligence Center, *National Gang Threat Assessment: Emerging Trends* (2011), p. 12.

Case Study: La Familia Michoacána and the Mexican Mafia

One of the most significant unions in recent years between a Mexico-based transnational criminal organization and a prison/street gang was the 2011 alliance between La Familia Michoacana ("LFM") and the Mexican Mafia. As outlined in the July 2013 indictment in *U.S. v. Rodriguez-Landa* (C.D. Cal. 2013), representatives of the Mexican Mafia entered into an agreement in April 2011 with LFM – historically one of the most significant Mexico-based methamphetamine trafficking organizations – to help LFM become a dominant distributor and seller of methamphetamine and marijuana in Southern California. Under the agreement, dubbed "The Project," the Mexican Mafia would protect LFM's drug shipments and sales, prevent other criminal gangs from taxing LFM's drug shipments and sales, collect drug debts owed to LFM, and provide protection to incarcerated LFM members in prison and jail. In exchange, LFM provided approximately \$500,000 to Mexican Mafia leaders upfront, with a share in drug proceeds going forward and discounted rates on methamphetamine for Mexican Mafia members and associates.

Figure 17
"The Project"



“The Canadian Connection”

Santa Clara County law enforcement officials broke up a unique criminal alliance in March 2009 when they arrested 14 people and seized 200 kilograms of cocaine being distributed through a joint partnership between La Familia Michoacana and a Vietnamese organization based out of Vancouver, British Columbia. In addition to trading pseudoephedrine (a precursor to methamphetamine) for cocaine, and swapping strains of marijuana, the organizations co-invested in shipments of narcotics throughout the U.S.

Source: Interview with a Deputy District Attorney in the Santa Clara County District Attorney’s Office (Oct. 23, 2013).

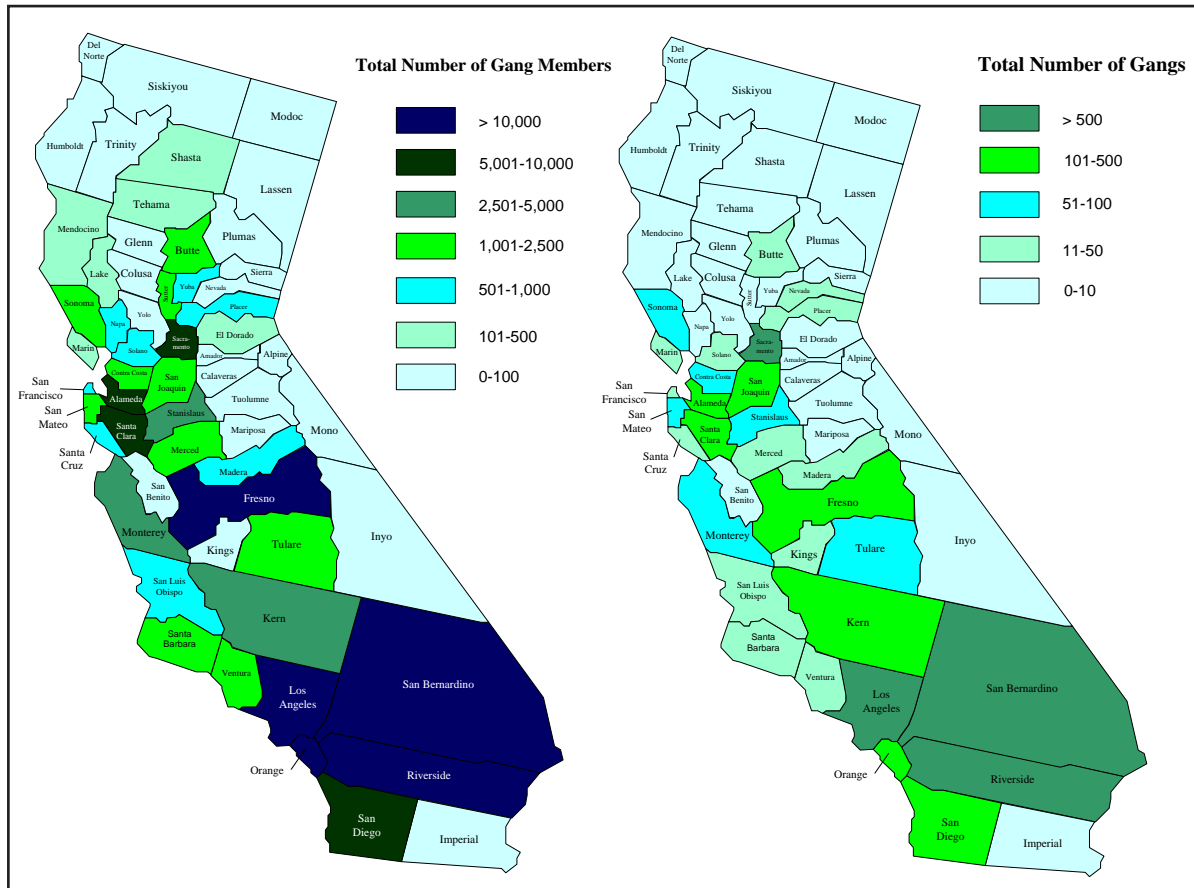
The Criminal Alliances Have Sparked a Rash of Violence

The deepening associations between Mexican drug trafficking organizations and gangs in California have, in turn, increased the potential for harm to California. Based on the best numbers currently available, there were approximately 4,897 gangs and 186,119 gang members in California in August 2013, making California one of the most gang-dense states in the country.⁹⁴ In particular, in 2011, two California counties, Los Angeles and San Bernardino, ranked first and third in the country in terms of the ratio of gang members to population (Figure 18).⁹⁵

The rise of Mexico-based drug cartels at a time when gang involvement is at record highs jeopardizes an otherwise encouraging trend in the reduction of crime in recent years. While the state’s homicide rate has reached its lowest level since 1966, nearly 30 percent of all killings committed in California from 2009 through 2012 – 1,911 homicides – were gang-related. For example, the City of San Jose reported a 300 percent increase in gang-related homicides between 2010 and 2011. Similarly, the City of Modesto reported a 213 percent increase in gang-related aggravated assaults between 2011 and August 2012, with corresponding increases in the number of both juvenile perpetrators and victims. Some California jurisdictions have reported that “gangs are responsible for at least 90 percent of [violent] crime.”⁹⁶

This is due in part to territorial battles as transnational criminal organizations and gangs expand their operations into new territories. For example, in order to expand their field of influence into Northern California, Mexican drug cartels sometimes rely on established connections with Sureño gangs based out of Southern California. However, the historic antipathy between Sureños and Norteños creates friction when Sureño gang members move into regions controlled by Norteños. This dynamic is seen in places like San Jose where, in January 2011, gang members working for a Mexican drug trafficking organization stormed

Figure 18
Gangs and Gang Members In California
Identified by Law Enforcement Agencies



Source: CalGang

a nightclub in an attempt to kidnap the owner over a drug debt.⁹⁷ A shootout ensued between rival gang affiliates, and three people were killed. Instances of such violence demonstrate the impact of transnational criminal organizations and gangs competing to expand the geographic scope of their drug distribution networks.

Conclusion

Transnational criminal organization activity poses a significant public safety threat in California. In particular, clashes between Mexican drug trafficking organizations over control of profitable trafficking routes have led to increasing violence in Mexico, in California, and along the southwestern U.S. border. Transnational criminal organization reliance on street and prison gangs for protection and distribution of illicit goods has reenergized existing and dormant gang rivalries, leading to increased gang casualties in an era of otherwise declining criminal activity.



New Challenges Facing Law Enforcement in Combatting Drug Trafficking

The increased presence of transnational criminal organizations in California has created new challenges for law enforcement. As discussed above, the relatively new alliances between transnational criminal organizations and California prison and street gangs give transnational criminal organizations both greater organizational stability and access to more territory. New forms of digital communications technology, such as smartphones, the Internet, and social media, have made it easier for criminal networks to coordinate their activities without detection and even to track their targets. Moreover, the process of globalization has outpaced the growth of global governance, creating massive opportunities for criminal organizations to grow their business. Finally, new trafficking strategies, including maritime smuggling, and the use of cross-border tunnels and ultra-light aircraft, pose new threats to law enforcement.

Despite these and other challenges, including massive budget cuts, law enforcement has made some important inroads against transnational criminal activity in California.

New Technologies Facilitate Gang Activities

Not surprisingly, transnational criminal organizations and gangs have embraced mobile communications technologies, such as the Internet and cell phones, not just to recruit new members and expand their social networks, but also to build and operate criminal networks without the geographic proximity once needed for communication.

Even in California's prisons, inmates are increasingly using cell phones to coordinate criminal activities and to intimidate or harass other gang members or innocent people outside prison walls. In 2007, 1,400 illegal communications devices were confiscated from prisoners. By 2011, the number

Social Media

Transnational criminal organizations and gangs are increasingly using social media resources for propaganda, intimidation, recruitment, and communication. According to the National Gang Intelligence Center, Mexican cartels have posted hundreds of videos on social media depicting interrogations or executions of their rivals and countless video montages of luxury vehicles, weapons, and money set to songs that glorify the drug trafficking lifestyle.

Source: National Gang Intelligence Center, *National Gang Threat Assessment: Emerging Trends* (2011), p. 41.

of seizures had eclipsed 15,000, a 10-fold increase.⁹⁸ In 2010, there were 200 incidents directly traced back by the California Department of Corrections and Rehabilitation (“CDCR”) Investigative Services Unit to inmates using cell phones to conduct criminal activities from inside CDCR institutions. In 2011, CDCR’s Office of Victim and Survivor Rights and Services recorded 119 contacts made by CDCR inmates using cell phones to continue victimizing people from inside CDCR institutions.

To address this problem, CDCR implemented an 11-day pilot program in 2011 at two state prisons in Solano and Vacaville aimed at curbing the unauthorized use of cell phones. Using “managed access” technology to block or “jam” signals to unauthorized devices, officials were able to detect 2,593 illicit wireless devices in the prisons and 24,190 unauthorized communication attempts. “In one day on one yard in one institution, the system prevented 400 unauthorized devices and blocked 4,000 unauthorized communication attempts from those devices,” resulting in a 64 percent increase in the use of authorized payphones.⁹⁹

Building off the success of this pilot program, CDCR contracted with Global Tel*Link – a prison telephone company – to develop and implement a three-stage plan to install managed access systems in 34 prisons across the state by June 1, 2015. Phase 0 of this plan was completed on October 31, 2012, with jamming technology installed at Avenal State Prison. In Phase I of the plan, 17 additional adult facilities were retrofitted, with Phase II calling for installations in 16 more adult facilities by June 1, 2015.

The use and adoption of communications technology to engage in transnational criminal activity has continued to expand beyond just the use of cell phones. Drug wholesalers can now sell illegal drugs and prescription pills over the Internet and track their shipments online, alerting the intended recipients of these illegal drugs to a possible interception.¹⁰⁰ Some particularly sophisticated networks even use specialized hackers to encrypt and protect their communications from law enforcement.¹⁰¹ Traffickers also take advantage of e-commerce and Internet banking to move money and pay suppliers and operatives without the risks associated with physical transfers of money. And human smugglers similarly make extensive use of e-mail, disposable cell phones, and encryption systems, while sex traffickers make sickening use of the Internet to “display the wares in the cyberspace equivalent of slave auctions.”¹⁰²

Even as communications technology has developed, some transnational criminal organizations and gangs, particularly prison gangs, have continued to use more traditional means to convey messages to their operatives. In one example, a member of the Mexican Mafia imprisoned in Pelican Bay State Prison issued a “kite,” a small piece of paper containing instructions to Florencia-13, a Sureño street gang in Los Angeles (Figure 19).¹⁰³ The letter outlined rules concerning: (1) governance structure; (2) drug and prostitution schemes; (3) dispute resolution systems; (4) rules for contract killings; and (5) methods for identifying and punishing informants.¹⁰⁴

Figure 19
 "Kite" Issued by Imprisoned Mexican Mafia Leader



Source: U.S. Attorney's Office, Central District of California (2013)

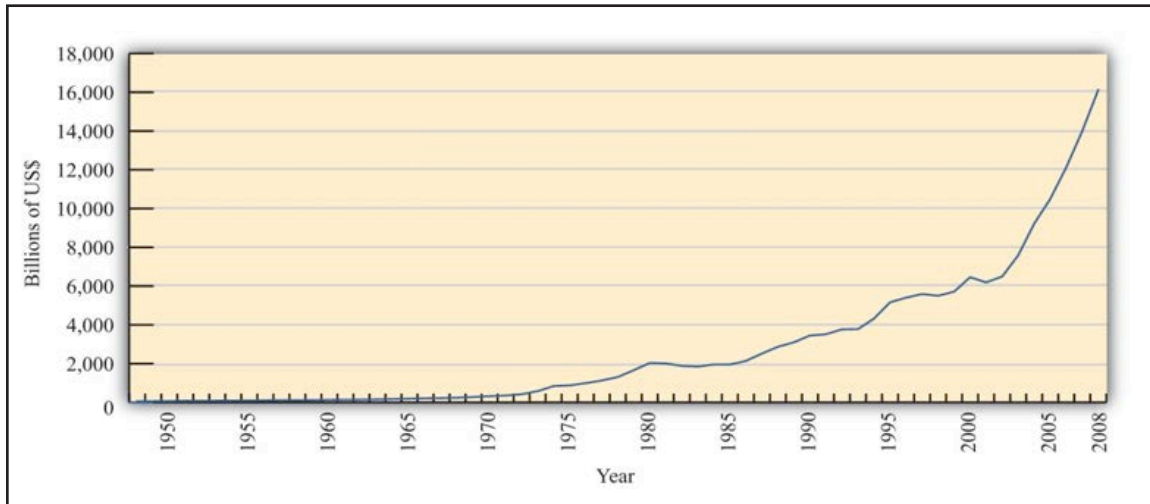
Increased Global Trade Has Made It Harder to Detect Illicit Trafficking

The past quarter century has witnessed unprecedented growth in global trade, finance, travel, and communication.¹⁰⁵ But the process of globalization has outpaced the growth of global governance, creating massive opportunities for criminal organizations to make their business prosper.¹⁰⁶ People and goods can move between countries more cheaply and efficiently than ever before, making it harder to distinguish between licit and illicit transfers.¹⁰⁷

Taking advantage of these developments, transnational criminal organizations have “diversified, gone global and reached macro-economic proportions,” with illicit goods frequently sourced from one continent, trafficked through another, and sold on a third.¹⁰⁸ In this way, the criminal underworld has become inextricably tied to the global economy, with transnational criminal organizations using trade, banking, and communications networks (whether shipping routes, financial centers, or the Internet) to traffic growing quantities of contraband.¹¹¹

Transnational criminal organizations engaged in drug, human, and firearm trafficking have responded to globalization and increased international trade by adapting their strategies and methods to exploit the heavy cross-border flows of goods and

Figure 20
Growth in International Trade (1948-2008)



Source: Prof. Steve Suranovic, *International Trade: Theory and Policy* (2010)

people.¹¹² Moreover, faced with enhanced border security regimens resulting from the terrorist attacks of September 11, 2001, they have modified traditional forms of concealment and developed new methods to evade detection at the California-Mexico border.¹¹³ This increasing level of operational awareness and sophistication presents a unique challenge for local, state, and federal law enforcement personnel in California.

Transnational Criminal Organizations Mask Trafficking at Traditional Ports of Entry

Historically, the vast majority of all narcotics, weapons, and human smuggling by transnational criminal organizations has been done over land, where transnational organizations can exploit the high vehicle and pedestrian traffic at border crossings. As a result, the most popular smuggling methods of Mexico-based criminal organizations to traffic smaller quantities of narcotics into California have been pedestrian couriers and privately-owned vehicles, particularly those with hidden compartments in the engine, car frame, gas tank, trunk, tires, and seats.

For larger shipments, Mexico-based drug trafficking organizations have frequently used commercial vehicles to move narcotics, weapons, and humans across the U.S. border. By hiding drugs, weapons, or persons within otherwise legitimate freight transported by commercial trucks, these traffickers have exploited opportunities arising from the growth of legitimate international trade.



In *U.S. v. Molinero* (C.D. Cal. 2013), a Mexico-based drug trafficking organization smuggled over a period of two years over 36 kilograms of heroin, over 30 kilograms of cocaine, and more than 2,400 pounds of methamphetamine inside PVC pipes. These pipes were further concealed in tractor trailer axles on commercial trucks driven across the border in Arizona and routed to Los Angeles for distribution.



Similarly, in *U.S. v. Mendoza-Haro* (D. Colo. 2012), prosecutors alleged that Mexico-based traffickers transported methamphetamine and bulk cash between Colorado and California, in some instances hiding drugs in loads of milk and, in at least one instance, strapping cash to the body of a minor as he was driven from Colorado to California.

Although these smuggling methods remain popular, they are highly vulnerable to interdiction. Consequently, Mexican drug trafficking organizations have more recently begun to utilize a number of strategies to reduce the risks of detection and seizure:

- Lookouts, commonly known as *halcones*, are frequently used to monitor border crossings, recognize vulnerabilities of ports of entry, and detect periods of decreased law enforcement presence.
- Illegal drugs are sometimes transported in convoys, with lead cars intended to be inspected by border agents, thereby decreasing the chances that subsequent loads will be seized.
- Recently, cartels have begun to smuggle methamphetamine, cocaine, and heroin into the U.S. in liquid form. The narcotics are dissolved into liquid in Mexico, smuggled across the border, and then converted back to powder or crystalline form for distribution. Trafficking via this method can retain up to 90 percent purity or better, depending upon the capabilities of the conversion lab.

Transnational Criminal Organizations Are Finding Alternatives to Ports of Entry

While land-based trafficking through ports of entry remains the most common trafficking strategy, transnational criminal organizations are increasingly shifting resources to maritime and air trafficking.¹¹² These trafficking methods include the use of *panga* boats and ultra-light aircraft, as well as cross-border tunnels, all of which have proven challenging for law enforcement to monitor or intercept.

Pangas

Transnational criminal organizations are increasingly exploiting California's extensive coastline and beaches to smuggle narcotics and people into the state. *Pangas*, also

Figure 21
"Super Panga" Boat Found in Santa Barbara County



Source: Santa Barbara County Sheriff's Office (2013)

known as *lanchas*, are the primary maritime trafficking threat to California. These low profile fishing vessels – between 20 and 38 feet in length – are fast (over 40 knots), effective, and economical. Most importantly, due to their fiberglass construction and low profile, *pangas* are extremely difficult to detect by radar or night vision. This, coupled with the sheer size of California's coastline, means that most *panga* discoveries are made either through tips or by happenstance.

Typically, *pangas* are launched from coastal communities in Baja California, such as Rosarito Beach, with few crew members. The vessels then sail north, often to a staging area well within international waters, before moving at high speeds into California to offload their illicit cargo.¹¹³ The Sinaloa cartel is the primary Mexican cartel conducting *panga* smuggling operations along California's coast. In recent months, U.S. Coast Guard crews and local officials have interdicted suspected Sinaloa-affiliated "super *panga*" vessels capable of carrying several thousand pounds of drugs. The super *panga* above was designed to carry as much as 10-12 tons of marijuana (Figure 21).

The increasing reliance on *panga*-based maritime smuggling by Mexico-based drug trafficking organizations is evidenced by seizure activity over the past several years. *Panga* boat interceptions doubled between 2009-2010 and 2010-2011, while *panga* drug seizures have increased significantly in recent years, with seizures of marijuana from *pangas* ballooning from 3,800 pounds in 2008 to 120,000 pounds in 2012.¹¹⁴

Figure 22
Panga Boat Smuggling Routes (2010-2013)



Source: CA State Threat Assessment Center

These statistics correspond with a period of decreasing marijuana seizures at land border crossings, suggesting a shift in the strategy of Mexican drug rings toward exploiting the vastness of the sea in order to smuggle drugs into the state.¹¹⁵

The majority of *panga* incidents before 2010 were confined to the Southern California coastline between San Diego and Los Angeles. However, there are now indications of *panga* operations that head further north along the coast beyond Ventura, Santa Barbara, and San Luis Obispo Counties, with landings reported as far north as Santa Cruz and Monterrey Counties (Figure 22).¹¹⁶

- **Santa Cruz County:** On September 30, 2013, a 20-foot *panga* wrecked off the shore of Four Mile Beach north of Santa Cruz. Eighty pounds of marijuana washed ashore, though officials suspected the craft was originally carrying considerably more.¹¹⁷ This followed a similar incident on July 27, 2013, when a *panga* was discovered near Bonny Doon Beach in Santa Cruz carrying 1,200 pounds of marijuana valued at \$2.1 million.¹¹⁸

- **San Luis Obispo County:** On September 11, 2013, San Luis Obispo County Sheriff deputies and state park rangers discovered a beached 30-foot *panga* vessel near San Simeon State Park Campground. In addition, officers found a 30-pound package of marijuana with a reported street value of \$18,000. Investigators believe traffickers offloaded several thousands of pounds of marijuana from the boat the night before.¹¹⁹
- **Santa Barbara County:** The first confirmed *panga* landing in Santa Barbara County occurred in March 2010, when over one ton of marijuana was recovered.¹²⁰ However, review of a GPS device found on the *panga* revealed frequent trips to San Luis Obispo County.¹²¹ Since then, Santa Barbara has experienced a steady increase in *panga* recoveries, with 8 *panga* incidents in 2011 and 21 *panga* incidents in 2012.¹²² Officials state that about one out of every five *panga* boats intercepted contains human cargo.¹²³ Moreover, some intercepted *pangas* have been operated by unaccompanied juveniles, including one off the coast of Santa Barbara that contained three females aged 11, 14, and 17 years old.¹²⁴

Regional Threat: Panga Boats in Santa Barbara County

On September 13, 2013, local, state, and federal law enforcement officials witnessed a group of 19 individuals offloading suspected bales of narcotics from a *panga* boat that came ashore in Goleta. Officers arrested 14 people and seized more than 2,000 pounds of marijuana as a result of the interdiction.

Figure 23
Seized Panga Boat in Santa Barbara County



Source: Santa Barbara County
Sherriff's Office

Figure 24
Illegal Drugs Seized From Panga Boat



Source: Santa Barbara County
Sherriff's Office

- **San Diego County:** In recent incidents, U.S. Coast Guard crews patrolling the San Diego coastline interdicted a super *panga* carrying 122 bales of marijuana weighing 2,900 pounds, and a *panga* that carried \$210,000 worth of the drug “bath salts.”¹²⁵

Pangas Pose New Dangers for Law Enforcement Officials

The use of *pangas* by Mexico-based drug trafficking organizations presents new threats to agents trying to prevent the flow of illicit goods into California. Interdiction efforts by the U.S. Coast Guard or local law enforcement officials have led to high-speed chases, with smugglers trying to dispose of their illegal cargo before being detained. In one tragic incident in December 2012, a Coast Guard Chief Petty Officer was killed off the coast of Santa Barbara when a Sinaloa-affiliated *panga* intentionally rammed an inflatable Coast Guard boat.¹²⁶ In another incident in October 2013, the Coast Guard apprehended a *panga* boat carrying 31 bales of marijuana (with a street value between \$2 million and \$3 million) after an extended high-speed chase off the shore of San Diego.¹²⁷

Cross-Border Tunnels

In contrast to cheap, often one-use *pangas*, cross-border tunnels are a significant investment for Mexico-based drug trafficking organizations. These organizations are increasingly exploiting specific areas underneath the California-Mexico border at places such as San Ysidro, Otay Mesa, and Calexico, due in part to limited law enforcement resources to counteract the subterranean threat.¹²⁸ Cross-border tunnels primarily facilitate multi-ton shipments of narcotics from Mexico to the U.S., but are also used for smuggling people. According to the U.S. Department of Homeland Security, approximately 169,000 pounds of narcotics, valued in excess of \$200 million, have been seized from cross-border tunnels since 1990.¹²⁹ The Sinaloa cartel is the main Mexico-based transnational criminal organization suspected of constructing cross-border tunnels. Indeed, the vast majority of cross-border tunnels are discovered in California and Arizona, sites for Sinaloa-controlled territories.¹³⁰

Cross-border tunnels range in sophistication from the rudimentary to highly sophisticated.¹³¹ Sophisticated tunnels are extremely well-constructed and can stretch for more than 2,000 feet, using a system of ventilation, lighting, and rail.¹³²

Since the 1990s, more than 161 cross-border tunnels have been discovered, with more than 75 detected since 2006.¹³³ According to DHS, cross-border tunneling activity has increased 80 percent since 2008, with California leading the nation in the number of sophisticated tunnels discovered.¹³⁴

Tijuana-San Diego Cross-Border Tunnel

On October 30, 2013, officers from the San Diego Tunnel Task Force shut down a "super tunnel," with suspected links to the Sinaloa cartel, that spanned one-third of a mile between an industrial area of Tijuana and a warehouse just west of San Diego's Otay Mesa port of entry. The tunnel, one of more than 75 cross-border tunnels discovered by law enforcement over the last seven years, was 35 feet underground and equipped with lighting, ventilation, and an electric rail system. Officials also seized 17,000 pounds of marijuana and about 325 pounds of cocaine, with a combined street value of \$12 million – marking the first time that authorities had seized cocaine in connection with a tunnel. Three Sinaloa associates were booked on federal drug charges, and officials made clear that the tunnel was shut down before it became fully operational.



Source: U.S. Department of Homeland Security, U.S. Immigration and Customs Enforcement.

Ultra-Light Aircraft

Ultra-light aircraft are single-pilot, three-wheeled platforms that use hang-gliders and single-propeller engines to fly in excess of 70 miles per hour. They are inexpensive and can exploit the vast airspace along rural stretches of the California-Mexico border to drop hundreds of pounds of narcotics at designated drop locations in agricultural fields, rural roads, or the desert in San Diego and Imperial Counties (Figure 25).

Since 2008, when the first eight sightings were reported, there have been more than 200 incidents involving ultra-lights. For example, on August 29, 2013, U.S. Customs and Border Protection agents found an abandoned ultra-light aircraft in the Southern California desert community of Niland, near the Mexican border. Agents found nearly 190 pounds of marijuana and 13 pounds of methamphetamine valued in excess of a half-million dollars still strapped to the aircraft.¹³⁵ While the frequency of ultra-light incursions is likely to increase in the near term, its significance as an emerging trafficking threat will not likely outpace *panga* maritime smuggling or cross-border tunnels given the cargo limitations of the aircrafts. However, as drone technology develops and becomes more widely available, law enforcement will have to be prepared to contend with these unmanned aerial trafficking threats.

Figure 25
Seized Ultra-Light Aircraft



Source: U.S. Department of Homeland Security, U.S. Customs and Border Protection

Sustained Funding Is Critical to Continued Law Enforcement Success

Law enforcement officials in California have made significant inroads in tackling the new trafficking strategies developed and utilized by transnational criminal organizations. For example, in 2012-2013, California state drug task forces disrupted or dismantled 140 drug, money-laundering and gang organizations; arrested nearly 3,000 individuals, including 176 gang members; rescued 41 drug endangered children; confiscated 1,000 weapons; and seized nearly \$28.5 million in U.S. currency in anti-narcotic law enforcement actions statewide.

Law enforcement agents have also disrupted and dismantled Sinaloa cells operating in California. For example, in "Operation Silver Fox," which began in January 2009, the California Department of Justice's Bureau of Narcotics Enforcement ("BNE") and the Imperial County Narcotic Task Force, District Attorney, and Sheriff conducted an 8-month investigation in San Bernardino, Los Angeles, and Imperial Counties that included more than 100 surveillance operations, 30 undercover meetings with Sinaloa cartel members and associates, and the execution of 6 search warrants. The operation led to indictments against 16 alleged Sinaloa members and the seizure of:

- 420 pounds of cocaine and 136 pounds of marijuana, with a combined street value of more than \$19 million;
- \$1.7 million in U.S. currency; and
- nine firearms, including seven handguns and two assault rifles.

A similar investigation by two Imperial Valley Task Forces, dubbed "Operation Kings X," resulted in 70 separate indictments, including the arrest of a top Sinaloa cartel member on charges of attempted kidnapping and extortion, and the seizure of 77,319 pounds of marijuana, 2,092 pounds of cocaine, 191 pounds of methamphetamine, 114 pounds of heroin, 35 vehicles, and more than \$9.35 million.

The Inland Crackdown Allied Task Force has also had some success cracking down on Sinaloa activity in Southern California, including the September 2012 arrest of four Sinaloa associates in Riverside County in connection with a \$1 million methamphetamine sale, and the November 2011 arrest of two Sinaloa associates in connection with a \$1.8 million cocaine sale.

BNE also led a number of successful crackdowns involving prison and street gangs, most notably, "Operation Crimson Tide." Over the course of a two-year investigation, spanning 23 counties and 13 correctional institutions, BNE significantly weakened Nuestra Familia, the chief rival prison gang to the Mexican Mafia, by arresting all of the organization's regional commanders.

Notable raids in the operation included:

- (1) a June 2011 takedown of the San Joaquin Valley branch of the gang, in which more than 50 properties were raided and 101 suspects were arrested, including Gonzalo “Gunner” Esquivel and Felipe Gutierrez, whom agents described as “the highest-ranking [Nuestra Familia member] that we know of on the outside”;
- (2) the 2012 arrests of 15 additional members in San Jose and Santa Clara counties, including 7 female associates; and
- (3) a May 2013 takedown, dubbed “Operation Snake Eyes,” which resulted in the arrests of 47 Nuestra Familia members involved in a Salinas methamphetamine distribution ring.

In 2012, BNE suffered severe budget reductions and was forced to close down. As a result, the number of state task forces dropped from 55 in 2011 to just 17 in 2013, a 70 percent reduction in field operational capacity.

This reduction in law enforcement funding has adversely impacted the California Department of Justice’s local drug interdiction and organized crime fighting activities statewide. Task forces led by the Department of Justice have played an integral role in fighting narco-trafficking gangs, and the continued growth of transnational criminal organizations warrants increased funding for task forces and associated Special Operations Units within the Department of Justice.

Sources: Office of the Attorney General, *Brown Announces 16 Indictments, 550 Pound Drug Seizure Following Infiltration of Sinaloa Cartel* (Aug. 26, 2009); San Diego and Imperial Counties High Density Drug Trafficking Area, *HIDTA Annual Report* (2012), p. 12; Indictment, *U.S. v. Esquivel* (E.D. Cal 2011); Don Thompson, *More Than 100 Arrested in Sting of Calif. Gang*, *Bakersfield Now* (Jun. 8, 2011).

Globalization Creates New Money Laundering Threats

As globalization increases and California’s participation in international trade continues to intensify, transnational criminal organizations have exploited the associated increase in the volume of goods and services crossing international boundaries to disguise, launder, and smuggle the money they reap from the sale of drugs and trafficking of persons. One example of this phenomenon is trade-based money laundering.

California's International Commerce and Trade-Based Money Laundering Schemes

An integral part of the Pacific Rim economic community and, on its own, one of the world's largest economies, California is a major hub for international trade and commerce.¹³⁶ In 2012, international trade flowing through California's ports totaled \$579.6 billion.¹³⁷ Los Angeles exported \$121.3 billion worth of goods and imported \$282.6 billion in foreign goods. Combined, Los Angeles' imports and exports represent more than 69 percent of California's total international port trade.¹³⁸

California's substantial international trade provides a platform for complex trade-based money laundering schemes to flourish.¹³⁹ In these schemes, cash derived from criminal activity is laundered through trade and commerce transactions that appear to be legitimate.¹⁴⁰ While trade-based money laundering in the U.S. has not been studied systematically, some experts estimate it to be the most significant method used to launder money from the country. Not surprisingly, transnational criminal organizations are using it with increasing frequency.¹⁴¹

One mechanism used by these organizations to finance trade-based money laundering is the Black Market Peso Exchange (Figure 26). The scheme exemplifies a trend towards decentralizing and outsourcing money laundering functions to limit exposure to criminal liability.

In the Black Market Peso Exchange scheme, a transnational criminal organization's money laundering is outsourced to a Money Laundering Organization (Peso Broker), which helps finance an international trade transaction using cash derived from criminal activity, such as the sale of drugs. The Peso Broker arranges for the delivery of a trafficker's drug cash to a U.S. vendor to pay for goods ordered by a business customer based in Mexico. The trade goods are then shipped to Mexico and sold by the Mexican business customer. The Mexican business customer reimburses the Peso Broker, in pesos, for the dollars used to purchase the U.S. trade goods. The Peso Broker, in turn, pays the transnational criminal organization, in pesos, the amount of illicit drug money used to finance the international trade transaction.

In this way, the transnational criminal organization has transferred the narco-dollars from the U.S. to Mexico and, for a relatively small fee, has effectively converted the proceeds to Mexican pesos. The Mexican business has also reduced its costs in conducting an international trade transaction, thus increasing its profit margin. The Peso Broker has made a commission from both the transnational criminal organization and the Mexican business customer without exposing itself to criminal liability associated with the smuggling and distribution of narcotics. And the U.S. vendor, a business engaged in international trade and commerce, has generated a profitable cash transaction, increasing its market share over its competitors.

Figure 26
Trade-based Money Laundering Scheme



The laundering of cash drug proceeds through products and hard goods has come under scrutiny by law enforcement in California. In cases from 2010 to 2013, the federal government has prosecuted several Los Angeles-based international trade vendors and their owners who were engaged in laundering transnational criminal organization cash drug proceeds through the sale of silk flowers and toy bears. The three companies, Angel Toy Corporation, Woody Toys, Inc., and Peace and Rich, collectively laundered approximately \$17.7 million in U.S. currency through trade-based money laundering schemes.¹⁴²

All three vendors received significant amounts of bulk cash from third parties (drug money couriers) to pay for international orders by Mexican and Colombian businesses seeking delivery of toys and or silk flowers. Bulk cash deliveries in amounts exceeding \$10,000 were then broken up into smaller amounts by the defendant businesses before being deposited to avoid triggering notice requirements by the banks to federal regulators. Angel Toy executed approximately 63 structured cash deposits, while Woody

Toys involved approximately 59, and Peace and Rich involved approximately 151. Anonymously structured cash bank deposits were funneled from various cities around the country, including New York City, Chicago, and Laredo, Texas, to the defendants' business bank accounts, with credit assigned to the international customers.

Due to the substantial amount of illicit drug proceeds flowing through the community and the willingness of some Los Angeles business owners to launder money on behalf of transnational criminal organizations, law enforcement officials consider Los Angeles and its many specialty business districts – the toy, jewelry, flower, garment and fashion districts – to be a “Mecca for narco-dollars” and a “target-rich environment” for money laundering.¹⁴³

Conclusion

The adaptability and fluidity of modern-day transnational criminal organizations ensures constant new challenges for law enforcement officials. Transnational criminal organizations in California are taking advantage of new technologies to communicate, recruit, propagandize, and intimidate. Transnational criminal organizations have also used the increase in global trade to mask their trafficking activities, increasingly relying on *panga* boats to transport drugs, weapons, and human cargo from Mexico up the coast into California. These organizations have further proven highly sophisticated in exploiting the complexities of international commerce to disguise, launder, and smuggle money made from the sale of drugs and trafficking of persons.



High-Tech Crime: A New Frontier for Transnational Criminal Organizations

The emergence of the Internet and of a global society linked together by high-speed information networks has transformed the ways in which businesses, governments, and individuals communicate and engage in commerce. Sellers on one side of the world can now advertise directly to buyers on another side of the world. Sales and financial transactions can take place instantaneously and anywhere there is an Internet connection. And goods and services themselves are increasingly being delivered digitally through the Internet. The benefits of these transformations for the global economy, and ultimately for consumers, have been dramatic. At the same time, these transformations have also given rise to a new set of dangers, as some of the same technologies that enable people across the globe to connect instantaneously with one another and exchange money or information also facilitate criminal exploitation:

- **Dangers posed to our information systems and networks.** Information systems and networks serve as the primary platform for our digital economy, while at the same time house the sensitive personal information of millions of consumers and citizens. Highly vulnerable to intrusion and manipulation, these systems and networks are regularly breached. As a result, millions have been subjected to identity theft and fraud, to say nothing of the severe damage this causes to the overall economy.
- **Dangers stemming from consumer vulnerability in the online marketplace.** As consumer trust in online commerce has grown, so also has criminal interest in exploiting that trust. The result is an explosion in Internet-reliant scams aimed at defrauding unsuspecting consumers. Every year, thousands of Americans report being victims of online marketing fraud schemes and suffering losses exceeding tens of millions of dollars as a result.¹⁴⁴ The losses of Californians are higher than those of residents of any other state.¹⁴⁵
- **Dangers arising from Internet-enabled markets for illicit goods and content.** The Internet has helped foster new economic models fueling the sale and distribution of counterfeit goods, counterfeit pharmaceuticals, pirated entertainment content, illegal drugs, and child pornography. These markets not only enable criminals to profit

from illicit goods and content, but also further fuel the growth of the underlying illicit activities. The Mexican Attorney General estimated in 2009 that the total revenues from La Familia's sophisticated network for distributing counterfeit movies, music, and software could be more than \$2 million a day.¹⁴⁶

Eager to exploit these vulnerabilities in their quest for profit and power, organized crime has developed increasingly sophisticated techniques and patterns of organization. The result is a new generation of transnational criminal organizations that are more flexible, decentralized, and global than ever before.

Transnational Criminal Organizations Are Targeting Information Systems and Networks for Attack and Exploitation

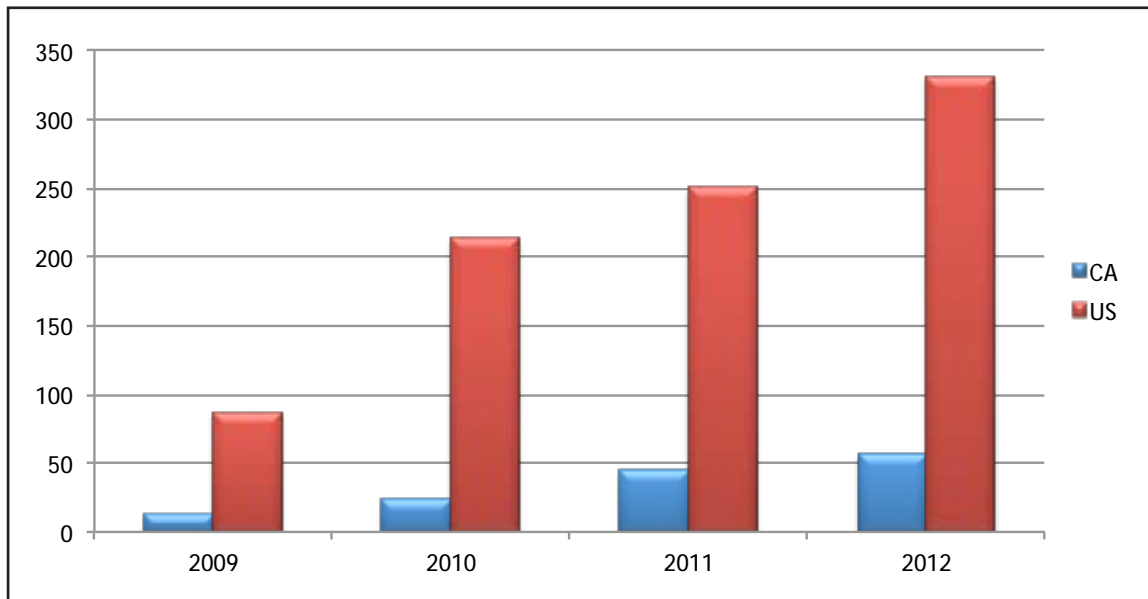
The digital infrastructure upon which consumers, businesses, and government all rely to store, process, and share information is highly vulnerable to attacks by sophisticated assailants operating remotely. Once breached, this infrastructure affords assailants the freedom to impersonate legitimate users, assume their privileges, and ultimately steal from them. According to the White House, cybercrime "costs consumers billions of dollars annually, threatens sensitive corporate and government computer networks, and undermines worldwide confidence in the international financial system."¹⁴⁷

These dangers are particularly acute in California. By a large margin, California tops all states in the number of hacked systems, the number of computer systems infected by malware, the number of victims of Internet crimes, the losses suffered as a result of those crimes, and the number of victims of identity fraud. In addition, because of the outsized role new technologies and mass-media entertainment play in its information-based economy, California is particularly vulnerable when its networks become infected and its intellectual property is stolen.

In 2012, the Privacy Rights Clearinghouse recorded at least 331 breaches in the U.S. caused by criminals who were purposefully trying to compromise databases or networks.¹⁴⁸ Seventeen percent of these intentional breaches occurred in California – a far higher percentage than in any other state – which, in turn, contributed to putting at risk the sensitive personal information of at least 2.5 million Californians that year.¹⁴⁹ At the same time, 12.6 million U.S. adults – or 5.3 percent of the adult population – became victims of identity fraud in 2012. Costs associated with this pool of victims are estimated to be a staggering \$21 billion.¹⁵⁰

The data represented in Figure 27 shows that the problem is getting worse. Between 2009 and 2012, the number of intentional breaches in the U.S. jumped by 280 percent.¹⁵¹ With new breaches now numbering in the hundreds per year, the rate of increase may be finally slowing, but it remains high. Between 2011 and 2012 alone,

Figure 27
Number of Intentional Data Breaches Designed to Compromise Systems
(2009-2012)



Source: Privacy Rights Clearinghouse

the number of breaches rose by 32 percent nationwide and by 27 percent in California, while the number of identity fraud victims in the U.S. increased by 8 percent.¹⁵²

Information Systems and Networks Are Highly Vulnerable to Intrusion and Exploitation

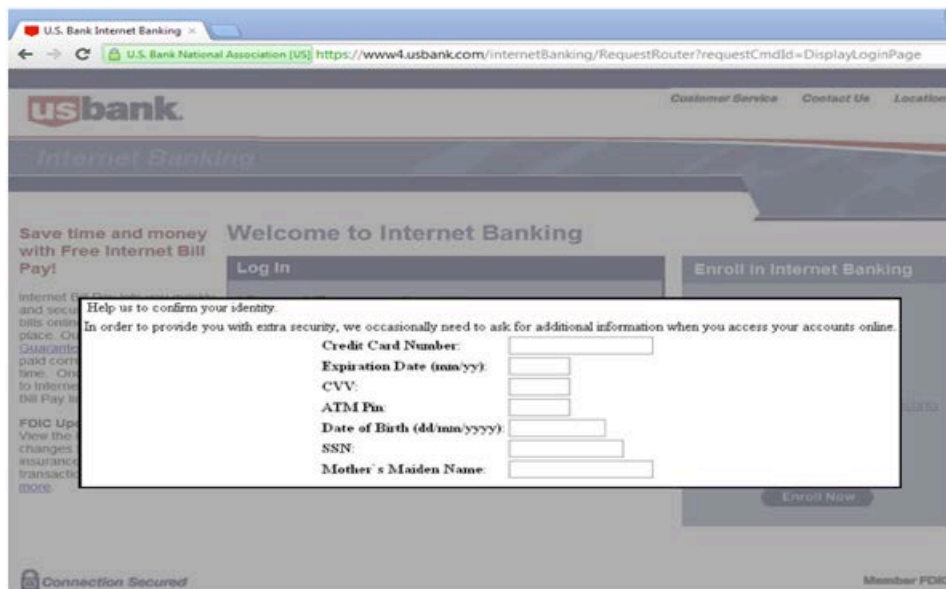
When cybercrime first emerged, it was mostly orchestrated by people with strong technical skills who primarily wanted to enhance their reputation and popularity within a relatively small hacker network.¹⁵³ Those days are over. As the potential profitability of cybercrime has become clearer, it has attracted a flood of individuals and groups with more pecuniary motives.¹⁵⁴

There are several ways in which criminals can engineer breaches of databases, networks, and computer systems.

- In a **phishing** attack, a victim is tricked into giving an assailant system access by being directed to a website that purports to be that of the victim's financial institution. This website asks the unsuspecting victim to enter his account number, username, password, and other personal identification information. Although the website is in fact a fake, the victim frequently complies with the request because the website appears to be legitimate – complete with bank logos and legal disclaimers.

- An assailant may also trick a victim into installing **malware** – or malicious software – on a targeted computer system. This malware is usually installed surreptitiously after the victim is induced to click on an attachment or link embedded in an e-mail message. In one recent case, an e-mail appeared as if it were from the National Center for Missing and Exploited Children.¹⁵⁵ Once installed, malware can redirect information within a system to the assailant’s computer. Some types of malware can log a user’s keystrokes or record screen shots whenever a victim attempts to connect to a targeted financial website and enter account information.¹⁵⁶ Other types are even more sophisticated. “Web injects” associated with the Gozi virus and the Citadel botnet, for example, actually alter how the webpages of particular banks appear on infected computers in order to trick a victim into divulging sensitive information (Figure 28).¹⁵⁷

Figure 28
Webpage Screen Shot of a “Web Inject”



Source: Microsoft Corporation

- “**Skimming**” is a type of attack that targets payment card networks in particular. It involves the installation of devices at credit/debit card terminals (usually located at gas stations or retail stores) that surreptitiously record card information as cards are swiped and PINs entered (Figure 29).

Figure 29
Skimmer Placed in a Gas Station Payment Terminal in Martinez, CA



Source: Northern California Computer Crimes Task Force

- Less technologically sophisticated, **breaches by insiders** occur when insiders abuse access privileges and supply sensitive information to criminals for a profit. Many breaches caused by insiders are never detected.

Once a victim's unique credentials are stolen, a criminal can use them to transact business instantaneously and from anywhere in the world. Criminals can withdraw cash, digitally transfer money to their own accounts, or purchase goods in exactly the same way as the legitimate account holder. All of this can happen before a victim even realizes his or her credentials have been stolen.

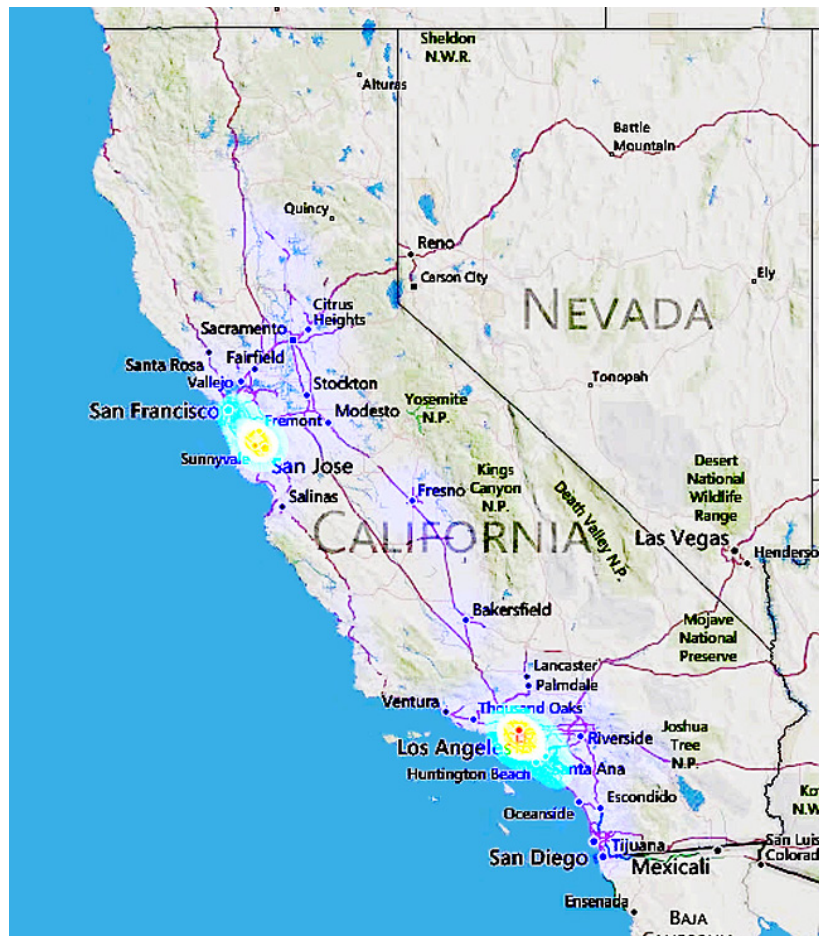
Because governments also rely heavily on unique identification numbers (e.g., Social Security numbers) to assign benefits or process taxes, a wide range of fraud becomes possible when government databases are breached or these numbers are otherwise stolen. Successful schemes have included billing the government for medical services never provided and pocketing another taxpayer's refund.¹⁵⁸ Through such high-tech fraud, large sums of taxpayer money may be siphoned off to criminals and away from its intended purposes.

Botnets Pose an Additional Risk to Information Systems and Networks

The threat posed by digital infrastructure vulnerability is not limited to identity theft and associated fraud. Computer networks and systems themselves may also be hijacked and used to launch attacks against *additional* computer systems. The principal way in which this occurs is through a "botnet," or a network of computers infected with

malicious software – usually without the knowledge of the end-user. Computers may become infected when a user “inadvertently interacts with a malicious website advertisement, clicks on a malicious e-mail attachment, or downloads malicious software.”¹⁵⁹ Once infected, “the malicious software establishes a secret communications link to a remote ‘botmaster’ in preparation to receive new commands to attack a specific target.”¹⁶⁰ The computers can then be controlled by the botmaster to “operate in concert to disrupt or block Internet traffic for targeted victims, harvest information, or [] distribute spam, viruses, or other malicious code.”¹⁶¹ Because of their versatility, botnets such as Citadel (Figure 33) have been described as the “Swiss Army knives of the underground economy.”¹⁶² Moreover, because Citadel and similarly dangerous botnets concentrate in areas with substantial technology presence, California is uniquely affected. The Los Angeles and Silicon Valley areas in particular have suffered significant infections by malware linked to Citadel (Figure 30).

Figure 30
Hot Spot Locations of Malware Infections Linked to the Citadel Botnet



Source: Microsoft Corporation (2013)

By dramatically increasing the numbers of victims that can be targeted by a single scheme, botnets are a game-changer for criminals. Botnets enable criminals to launch millions of attacks against protected networks or computer systems and exploit vulnerabilities within hours, if not minutes. This ability to exponentially expand the pool of victims, in turn, can make otherwise unprofitable criminal strategies successful.¹⁶³ Botnets significantly increase the profitability of any scheme that depends on taking small amounts of money from large numbers of victims so as to avoid detection.¹⁶⁴

In the same way, botnets increase the threat posed by transnational criminal organizations exponentially by allowing perpetrators based outside the country to reach out to millions of Americans at once through spam e-mail.¹⁶⁵

Transnational Criminal Organizations Are Fueling the Epidemic

Not surprisingly, transnational organized crime has tapped into this new criminal frontier. Cases strongly suggest that transnational criminal organizations are behind the biggest schemes to breach systems and exploit captured identification credentials.


 A particularly devastating phishing operation involved an Egypt-based transnational criminal organization that expanded its operations into California. The Egypt-based hackers used phishing tactics to obtain bank account numbers and related identification of U.S. bank customers. They then teamed up with three California-based individuals who supplied them with California bank accounts to which they could transfer stolen funds.¹⁶⁶ The individuals who opened the California accounts then withdrew these fraudulently obtained funds, which were eventually transferred to the original hackers in Egypt.¹⁶⁷ The multinational investigation into this crime, dubbed Operation Phish Phry, resulted in charges against 53 defendants in the U.S. (Figure 31). Most were

Figure 31



arrested and prosecuted in Southern California. Authorities in Egypt also charged 47 defendants linked to the scheme.¹⁶⁸



In *U.S. v. Drinkman* (D.N.J. 2013), one of the largest hacking and data breach cases ever, a confederacy of Eastern European criminals harvested over 160 million credit card numbers by attacking numerous companies around the world, including national retailer Wet Seal, Inc., which is headquartered in California.¹⁶⁹ Unique malware placed within the targeted payment networks allowed the organization to capture payment card credentials and other information in real time as the information moved through the network.¹⁷⁰ The organization then sold the credentials on the black market (priced at \$10 for American credit card numbers and \$50 for European numbers) and the information was eventually used to make counterfeit payment cards.¹⁷¹ Losses from the scheme totaled in the hundreds of millions of dollars.¹⁷²



In 2009, members of the Armenian Power transnational criminal organization caused more than \$2 million in losses when they installed skimming devices at several 99¢ Only Stores in Southern California, and then used the skimmed information to create counterfeit credit and debit cards.¹⁷³



In the largest Medicare fraud scheme ever committed by a single enterprise and criminally prosecuted by the U.S. Department of Justice, an Armenian-American transnational criminal organization, the Mirzoyan-Terdjanian Organization, used fraudulent Medicare billings to steal more than \$163 million.¹⁷⁴ After stealing the identities of real doctors, the organization set up phony clinics and applied to become Medicare providers. Once approved, the clinics used stolen information from beneficiaries from around the country to bill Medicare for services never provided. Although Medicare was able to identify and shut down many of the fake clinics, they were promptly replaced by new ones, often in another state.¹⁷⁵ In all, at least 118 bogus clinics were opened in 25 states.¹⁷⁶ Many of the 73 defendants eventually prosecuted operated out of the Los Angeles area.¹⁷⁷

As these cases suggest, transnational criminal organizations are leading efforts in California to target information systems and networks to steal identification credentials that can be converted into money. One of the largest global surveys on data breaches has found that in 2012 organized criminal groups were responsible for at least 55 percent of all incidents of unauthorized access to confidential information of a business or government entity by an external actor.¹⁷⁸ Many of these criminal groups were transnational criminal organizations operating out of Eastern Europe that targeted businesses and governments in the U.S. and Western Europe.¹⁷⁹

Transnational Criminal Organizations Are Uniquely Positioned To Exploit High-Tech Criminal Opportunities

Like drug trafficking, high-tech crimes tend to be highly profitable – in many cases even more so than trafficking. For example, DVDs containing pirated software can be produced for just \$0.50, but sold for more than \$50.¹⁸⁰ Credit card information linked to personal information about the owner can be obtained for as little as \$10 and then exploited to reap hundreds or even thousands of dollars' worth of goods.

Yet, unlike drug trafficking, the risks to criminal organizations of much of this activity are comparatively low.¹⁸¹ High-tech crimes are often extremely difficult to detect. And even if prosecuted, offenders are likely to receive penalties that are lower by comparison to violent crimes and drug trafficking.¹⁸²

Transnational criminal organizations are uniquely able to exploit the opportunities presented by the high-tech criminal frontier. Their ability to structure criminal activity transnationally in many cases makes them virtually immune from arrest or prosecution due to formidable obstacles that law enforcement often encounters when trying to track perpetrators from one country into a foreign jurisdiction.

Transnational criminal organizations also have greater access to the expertise, specialization, and coordination required to successfully pull off most high-tech crimes.¹⁸³ And while in the past criminal cross-border cooperation was cumbersome, expensive, and vulnerable to law enforcement, the Internet and other advances in high-speed international communication have dramatically reduced these "transaction costs." Now, far-flung criminal network operatives can exploit new criminal opportunities from their desktops without even having to leave their homes – let alone their home countries.¹⁸⁴

Outsourcing of Specialized Services Is Making the Technology of Cybercrime More Accessible

In the past, a criminal organization entering the cybercrime arena may have needed to possess a fairly high level of computer hacking skills. But increasingly the specialization needed to launch high-tech criminal attacks is being achieved by outsourcing – specifically, by purchasing highly specialized services online from the "dark market." Clandestine websites offer virtually any service needed to perpetrate high-tech crime. Pay-per-install services, for example, take malware and disseminate it by infecting computer and Internet systems for a price as low as \$100 per 1,000 downloads. (See Figure 32.) Transnational criminal organizations are turning to this market with increasing frequency precisely because of the diversity of specialized and competitively-priced services offered. Buyers can even comparison shop to get the best price.¹⁸⁵

Figure 32
Price List for Services Available on the “Dark Market”

Offering	Price
Malware installation (pay-per-install) (targeting U.S.-based computers)	\$100–150 (per 1,000 downloads)
Distributed Denial-of-Service (DDoS) Attack (1-hour)	\$10
(1-week)	\$150
Cheap e-mail spamming service	\$10 (per 1 million e-mails)
Zeus Botnet builder kit	\$100
Purchase of botnet capable of launching DDoS attack	\$700
Hacking Email (gmail.com account)	\$85–130
(corporate email account)	\$500

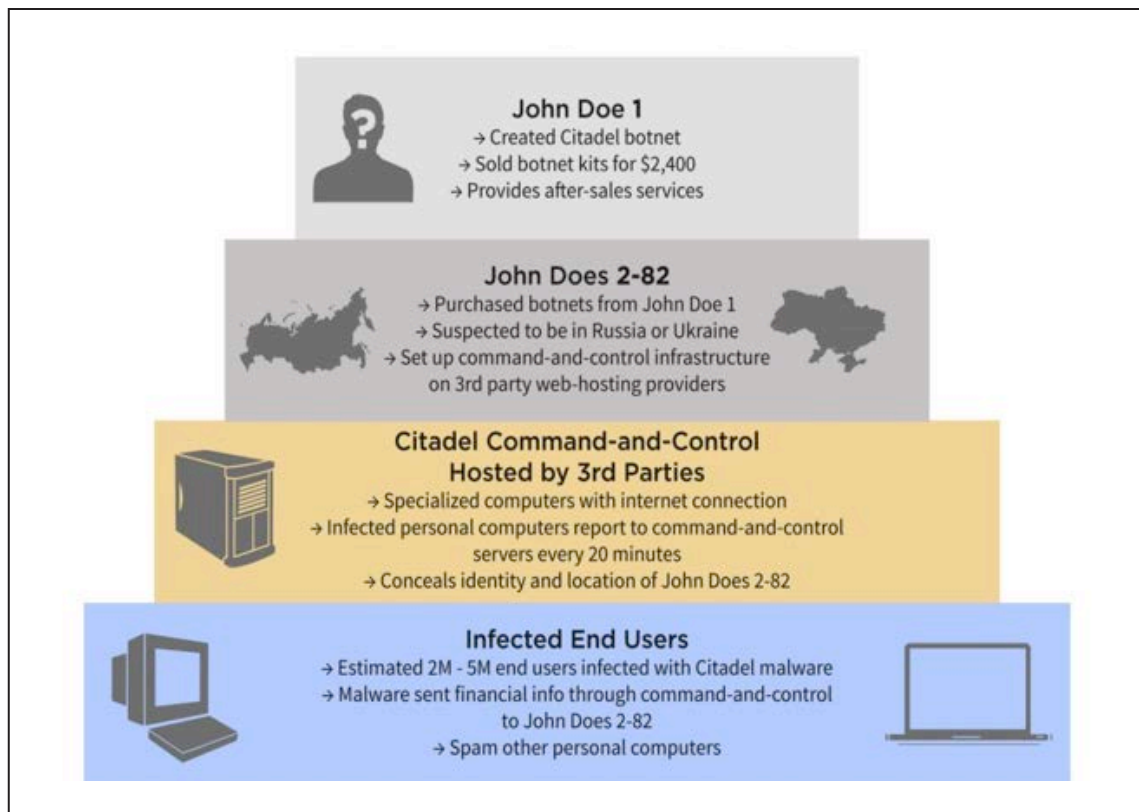
Source: Max Goncharov, *Russian Underground 101*, Trend Micro Incorporated (2012)

This dark market offers hacking services that are not only highly specialized but that can even be customized to the particular target of the criminal enterprise. This customization promotes accessibility – particularly for non-specialists – and is enabling “a much wider range of people to become [high-tech crime] offenders, not just those with a special gift for computing.”¹⁸⁶ In response to demand for these services, providers are offering ever more sophisticated products. For example:

- Whether the service offered is a “distributed denial-of-service” attack, spamming, or pay-per-install, multiple options exist on the dark market for tailoring the service to the attacker’s specific needs. For example, a distributed denial-of-service attack, in which a computer is used to attack a website by sending overwhelming data requests, is not only available for purchase, but can be tailored to persist as long as one month and as short as one hour.¹⁸⁷

- Malware, botnets, and other products are increasingly being packaged with “a high degree of after-sales service.”¹⁸⁸ The creator of the Citadel botnet, for example, uses a “customer relationship management” tool to communicate with “customers” who purchased a botnet “builder kit” about “updates to Citadel code, support with technical problems, and best practices in deploying, running, and defending their Citadel botnets.”¹⁸⁹ According to Microsoft, the Citadel creator is “swift to add new features and fix bugs and has released multiple versions on a fast schedule to provide the Citadel botnet operators with the latest updates.”¹⁹⁰ In addition, the Citadel creator collaborates with customers, inviting them to suggest new features and vote on which features should be implemented.¹⁹¹

Figure 33
Citadel Botnet Case



Source: Complaint, *Microsoft Corp. v. John Does 1-82*, No. 3:13-cv-319 (W.D.N.C. May 29, 2013)

Not Just About the Money

Although most transnational organized cyber attacks are motivated by money, some appear to be triggered by malice or political ideology instead. While this small category of actors lacks the greed for money generally associated with transnational criminal organizations, these groups do share one important commonality: they operate transnationally to commit crimes and cause millions of dollars in damages.

“Anonymous,” “Internet Feds,” and “LulzSec” are some of the groups that have displayed such multifaceted motives. Beginning in late 2010, members of Anonymous targeted the websites of Visa, MasterCard, and PayPal in retaliation for those companies’ refusal to process donations to Wikileaks. By bombarding them with distributed denial-of-service attacks, Anonymous was able to crash the companies’ websites. In similar fashion, Anonymous temporarily brought down websites used by the Algerian and Tunisian governments.

In the first half of 2011, the groups Internet Feds and LulzSec went on a global cyber rampage by hacking into the computer systems of Fox Broadcasting Company, Nintendo, the U.S. Senate, PBS, Sony, and the publisher of the *Chicago Tribune* and the *Los Angeles Times*, among many others. In addition to stealing confidential information from the compromised servers, the attackers defaced websites and inserted a fake news article on the website of PBS’s *News Hour*.

The attack on PBS was allegedly in retaliation for what was perceived as unfavorable news coverage about Wikileaks. According to a court document revealed during the 2012 prosecution of the groups’ key members in the Central District of California, LulzSec’s overall goal was to see the “raw, uninterrupted, chaotic thrill of entertainment and anarchy” and to provide stolen personal information “so that equally evil people can entertain us with what they do with it.”

These groups are not the only ones whose motives extend beyond money. Others include anti-American hacker groups apparently originating from the Middle East. In September 2012, the “Izz ad-Din al-Qassam Cyber Fighters” launched a series of denial-of-service attacks against the websites of several major U.S. banks, allegedly out of indignation at an anti-Islam online video mocking the Prophet Muhammad. And in early 2013 the “Syrian Electronic Army” compromised the *New York Times*’ website and the Twitter feed of the Associated Press, among others, again apparently out of political motives.

Sources: U.S. Attorney’s Office, Southern District of New York, *Six Hackers in the United States and Abroad Charged for Crimes Affecting Over One Million Victims*, news release (Mar. 6, 2012); Indictment at pp. 3-15, *United States v. Mosegur*, No. 1:11-cr-00666 (S.D.N.Y. Aug. 15, 2011); U.S. Attorney’s Office, Central District of California, *Second Member of Hacking Group Sentenced to More Than a Year in Prison for Stealing Customer Information from Sony Pictures Computers*, news release (Aug. 8, 2013); Nicole Perlroth, *Attacks on 6 Banks Frustrate Consumers*, *New York Times* (Sept. 30, 2012).

Emerging High-Tech Crime Trends

Fraud in the Online Marketplace

The shift toward selling and buying goods online is one of the most significant transformations ushered in by the Internet. It would not be possible if consumers did not trust that goods they purchased online would be reliably delivered days later. But the same trust that helps fuel online commerce is also ripe for exploitation. One industry estimate in 2009 suggested that various online scams swindled more than \$2 billion from U.S. companies and citizens.¹⁹²

Criminals may trick a buyer into thinking he is part of a legitimate transaction. Once the buyer has made a payment – often for a high-value item, such as a car – the goods are never delivered.¹⁹³ To enhance the con, the criminals may make it appear as if a “third-party” agent is receiving the payment. These agents sometimes even maintain websites with online delivery tracking systems.¹⁹⁴

A related type of fraud dupes victims into thinking they can acquire a large sum of money by paying a small amount in advance. Many Americans know this type of fraud from having received an unsolicited e-mail from a well-connected person who attempts to enlist them in a plot to smuggle millions of dollars out of Nigeria.¹⁹⁵ The solicitor asks only that the victim pay a small amount – often for a bribe – to secure a percentage of the millions in loot. Other versions of this fraud trick people into believing they have won a lottery and promise delivery of the winnings once the victim has paid the requisite taxes, legal fees, or escrow fees.¹⁹⁶ While these “advance fee” schemes have existed for decades, the Internet and other technologies have helped expand their reach exponentially.¹⁹⁷

Because it is estimated that only one percent of people or businesses need to be duped for the fraud to be profitable, botnets frequently determine whether such schemes succeed.¹⁹⁸ For example, because most people no longer open – let alone act on – the spam e-mail messages that underlie phishing attacks and mass-marketing fraud, the profitability of these strategies is heavily dependent on whether huge numbers of spam messages can be sent out in a short period of time.¹⁹⁹ By employing multitudes of computers to automatically send millions of such e-mails, botnets make these schemes viable.²⁰⁰ In one mass-marketing fraud case, botnets were employed to distribute spam aimed at fraudulently driving up the prices of certain stocks. Once the stock prices rose, the chief organizer of the worldwide conspiracy sold the stocks at the artificially inflated prices, reaping approximately \$2.8 million.²⁰¹

Data from the Internet Crime Complaint Center confirms that mass-marketing fraud schemes continue to be both widespread and highly profitable. In 2012, for example, thousands of Americans reported being victims of online auto fraud, with direct losses

Illegal Online Gambling

Debuting in the mid-1990s, online gambling illustrates the way in which transnational criminal organizations have used the Internet and cross-border havens to transform traditional criminal activity.

Last June, the U.S. Attorney for the Southern District of California offered details about one case, which appeared to employ a common model. The case involved a transnational criminal organization that ran a corporation named Macho Sports. Macho Sports operated several sports gambling websites hosted on servers primarily located outside the U.S. The corporation was initially registered in Panama and later moved to Peru in 2008, where it set up the physical platform for its online gambling activities. California-based customers connected to gambling accounts through Macho Sports websites to place bets, while teams of “bookies” and “runners” in the Los Angeles and San Diego areas were used by Macho Sports to recruit customers, pay off winning bets, and collect on losing bets – sometimes violently. The enterprise earned millions of dollars, which were then laundered through check-cashing businesses that took part of the cut.

Sources: Jerome P. Bjelopera & Kristin M. Finklea, *Organized Crime: An Evolving Challenge for U.S. Law Enforcement*, Congressional Research Service (2012), p. 11; Indictment at pp. 2-6, *United States v. Portocarrero et al.*, No. 3:13-cr-02196 (S.D. Cal. June 13, 2013); U.S. Attorney’s Office, Southern District of California, *Members of International Sports Gambling Ring Charged with Racketeering and Extortion*, news release (June 19, 2013).

exceeding tens of millions of dollars.²⁰² Online scams involving housing rentals, timeshares, and various limited-time investment “opportunities” are also common, causing millions of dollars in reported losses nationwide in 2012.²⁰³ According to the Internet Crime Report, the losses Californians suffer as a result of these crimes top by a large margin the losses reported in any other state.²⁰⁴

As with other types of cybercrime, fraudulent mass-marketing schemes are increasingly perpetuated by transnational criminal organizations.²⁰⁵ Transnational criminal organizations based in Romania, for example, have orchestrated two of the biggest cases involving fraudulent online sales. In both cases, the Romanian organizations advertised high-value items for sale online, using Internet auction sites popular with

Americans, such as eBay or Cars.com.²⁰⁶ The organizations instructed the buyers where to wire payments. “Arrows,” U.S.-based accomplices recruited to retrieve those payments, then transmitted the funds to Romania.²⁰⁷ Both schemes netted millions of dollars, with the gains in one topping \$10 million.²⁰⁸ Many “advance fee” fraud scams have also been linked to West African transnational criminal organizations,²⁰⁹ whose loosely connected cells are located not only in Africa but around the world.²¹⁰ And an Israel-based transnational criminal organization employed a lottery scam over several years to defraud hundreds of U.S. victims, mostly elderly, out of approximately \$25 million.²¹¹

Counterfeit Goods and Pharmaceuticals

Online commerce not only makes it easier for consumers to shop and purchase goods, but has also obviated the need for sellers targeting the U.S. market to be located in the U.S. This, in turn, has created a significant regulatory hole, as government regulators can no longer effectively regulate what consumers purchase simply by targeting the U.S.-based entities that directly sell to consumers. Because of this regulatory hole, myriad illicit markets have been able to emerge and thrive alongside online markets for legitimate goods and services. Growth in the market for counterfeit goods and pharmaceuticals has exploded as the Internet has helped link price-conscious consumers in the U.S. with manufacturers in Asia that can produce increasingly sophisticated goods at low cost. Other markets experiencing Internet-related growth involve illegal drugs and child pornography. By directly linking suppliers to vast numbers of consumers worldwide, online illicit markets help increase the profitability – and, therefore, the growth – of criminal activity.

The new marketplace for counterfeit goods is dominated by transnational criminal organizations. According to the United Nations Interregional Crime and Justice Research Institute (UNICRI), “[c]ounterfeiting and piracy have long presented a tempting target market for organized criminals.” But especially in recent years, UNICRI notes, transnational criminal organizations have moved “deliberately and in great numbers” to grab control of supply chains and consolidate power over these rapidly growing black markets.²¹² For example, Italian transnational criminal organizations like the Neapolitan Camorra have long played a major role in the production and distribution of counterfeit luxury goods. With the massive growth of Chinese manufacturing, Italian transnational criminal organizations are adapting by increasingly partnering with Chinese criminal enterprises.²¹³ Pursuant to these partnerships, the Chinese enterprises manufacture the products, while the Camorra sells and distributes them.²¹⁴

Because the success of an Internet-based business model depends on attracting sufficient numbers of customers to the counterfeiters’ websites, counterfeiters may outsource their advertising work to specialized transnational criminal organization that deploy botnets. These botnets help counterfeiters reach millions through spam e-mail

and the sophisticated manipulation of search engine results.²¹⁵ The success of these Internet-enabled counterfeiting networks has significant consequences. In the global pharmaceutical market, for example, sales for legitimate businesses that play by the rules decline, reducing incentives for expensive investments into potentially life-saving drugs. In addition, since counterfeiters may dilute or misrepresent the active ingredients in counterfeit pharmaceuticals, recipients may not get the treatment they need, imperiling their health.²¹⁶

Digital Piracy

Today, the Internet provides virtually unfettered access to a range of intellectual property content. However, the creators of this content are also arguably more vulnerable than ever to having their works stolen and distributed without their consent. According to a recent study by the British brand-protection firm NetNames, the amount of Internet traffic used for copyright infringement in North America, Europe, and the Asia Pacific has grown nearly 160 percent from 2010 to 2012 and now accounts for 24 percent of total Internet traffic.²¹⁷ In 2011, it was estimated that more than 17 percent of Internet traffic in the U.S. was infringing.²¹⁸ While new digital services for the authorized dissemination of music, film, television, and software have proliferated,²¹⁹ services facilitating illicit distribution continue to evolve and thrive. Such services include cyber lockers, peer-to-peer networks, BitTorrent, streaming websites, and literally hundreds of mobile applications.²²⁰ Another major source of pirated content are China-based enterprises that produce and ship pirated DVDs with packaging that is often “shockingly sophisticated and nearly indistinguishable from legitimate product.”²²¹ These developments, in turn, have fostered astonishing growth in the global market for pirated digital content. For example, in 2011, the global commercial value of pirated software is estimated to have reached \$63.4 billion, more than double what it was in 2003.²²²

Contrary to the myth that illicit distribution services are only interested in helping to propagate content, these services are in fact primarily profit-driven. One business model offers paid subscriptions for the pirated content. Another model offers the content free, but profits by inducing consumers to click online ads. In either case, as consumers use these piracy services to view content or download software, they siphon revenues away from content creators and into the pockets of criminals. Given the importance of the music, television, and film industries in California, the economic damage within the state of such Internet-enabled digital piracy is disproportionately severe. While estimates of exact losses vary greatly, there is little doubt that over the years digital piracy has robbed creative industries based in California of hundreds of millions of dollars in revenue and jobs.

In addition to depriving intellectual property creators of their earnings, a further threat posed by the marketplace for digital piracy is the distribution of malware. More and

La Familia Michoacána Branches Into Counterfeit Software

One of the most alarming developments in piracy has been the entrance of some of Mexico's most dangerous transnational criminal organizations into the piracy market.

In March 2009, Mexican law enforcement cracked down on a counterfeit software ring run by La Familia Michoacána out of the Mexican state of Michoacán. The ring was producing counterfeit versions of software such as Microsoft Office and Xbox video games, complete with "FMM" stamps (for "Familia Morelia Michoacana") on the disks. The *New York Times* reported that La Familia was distributing the software "through thousands of kiosks, markets and stores in the region and demand[ing] that sales workers meet weekly quotas." Through sophisticated distribution networks such as this, it was estimated by the Mexican Attorney General that La Familia was potentially earning more than \$2 million per day. How this figure has changed since 2009 is unknown.



Like La Familia, Los Zetas are widely reported to have counterfeiting operations within many Mexican states. The Zetas imprint their unique stamp – either a "Z" or a bucking bronco – on counterfeit CDs and DVDs they help produce and distribute.

Sources: Ashley Vance, *Chasing Pirates: Inside Microsoft's War Room*, *New York Times* (Nov. 6, 2010); Francisco Gomez, *Pirateria, el Otro Frente del Narco* *El Universal* (Mar. 1, 2009), <http://www.eluniversal.com.mx/nacion/166099.html>, accessed on Jan. 2, 2014; Patrick Manner, *Drug Cartels Take Over Mexican Black Market*, *Fox News Latino* (Aug. 22, 2012); Motion Picture Association of America.

more, pirated content – whether downloaded or on a physical disk – is “laced” with malware that, once installed on a computer, can steal information or otherwise compromise that system.²²³ According to McAfee, 12 percent of sites known to distribute pirated content “are actively distributing malware to users who download [the] content.” Moreover, some of these sites appear to “have associations with known cyber crime organizations.”²²⁴

Virtual Currencies Offer New Tools for Money Laundering

New Internet-reliant technologies threaten to revolutionize the way in which transnational criminal organizations finance their activities and launder their proceeds. Until now, these organizations have had to sacrifice speed and profit margins in order to transfer money securely and secretly. For example, to avoid the registration and reporting requirements of banks and other international money transmitters, transnational criminal organizations avoid digital bank transfers in favor of physically transporting cash in bulk and participating in complicated trade-based money laundering schemes. These schemes are not only slow and subject to law enforcement interdiction, but also involve multiple “fees” to compensate launderers for their efforts and risk-taking. However, the emergence of new technologies over the last few years hints at a future in which speed and profit margins no longer need to be sacrificed in exchange for security and secrecy.

One example of these new technologies is the pre-paid, open-system stored-value cards such as “Green Dot” cards. Prepaid open-system cards allow their holder to connect to global debit and automated teller machine (ATM) networks. These prepaid cards often do not require the cardholder to open a bank account or verify his or her identity.²²⁵ This lack of an accountholder relationship, coupled with the fact that the cards are not subject to any cross-border reporting requirements,²²⁶ can enable a cardholder to transfer an unlimited amount of money across the global payment system anonymously.²²⁷

Perhaps the most notorious new technology in transnational criminal organization finance is virtual currency, a category that includes e-Gold, Liberty Reserve, and Bitcoin, as well as currencies used in online games that can be bought and exchanged for dollars.²²⁸ These currencies are “virtual” because they operate like currency within their designated ecosystems, but lack the legal tender status of real currencies in any jurisdiction.²²⁹ Virtual currencies can be used to quickly and confidently move illicit proceeds from one country to another. And as long as the government is unable to link virtual currency accounts or addresses to their owners, the identities of those sending and receiving the proceeds are effectively shielded. According to the U.S. Secret Service, “[t]hese attributes make [virtual] currencies a preferred tool of transnational criminal organizations for conducting their criminal activities, transmitting their illicit revenue internationally, and laundering their profits.”²³⁰ The following examples illustrate this trend.

e-Gold

Founded in 1996, e-Gold was a pseudonymous digital currency that was originally backed with gold coins stored in a safe deposit box in Florida. To open an e-Gold account, a person needed no more than a valid e-mail address. Once the account was established and funded, the account holder “could gain access through the Internet and conduct anonymous transactions with other e-Gold account holders anywhere in the world.”²³¹ As a result, e-Gold “quickly became the preferred financial transaction method of transnational cyber criminals – particularly those involved in the trafficking of stolen financial information and [personally identifiable information] of U.S. citizens – and a tool for money laundering by cyber criminals.”²³² At its peak, e-Gold moved more than \$6 million each day for more than 2.5 million accounts.²³³ In 2007, the federal government shut down e-Gold. Its owners pleaded guilty to charges of money laundering and operating an unlicensed money transmitting business.²³⁴

Liberty Reserve

Incorporated in Costa Rica in 2006, Liberty Reserve S.A. for years operated one of the world’s most widely used virtual currencies. It provided what it described as “instant, real-time currency for international commerce,” but it was allegedly designed to intentionally help criminals conduct illegal transactions and launder the proceeds of their crimes. In particular, it permitted users to conduct financial transactions under *multiple* layers of anonymity.²³⁵

According to federal prosecutors, Liberty Reserve was one of the principal means by which cyber criminals from around the world, including credit card thieves and computer hacking rings, laundered their illicit proceeds.²³⁶ Liberty Reserve’s website offered a “shopping cart interface” that “merchant” websites could use to accept Liberty Reserve currency as payment.²³⁷ The “merchants” who accepted Liberty Reserve currency were overwhelmingly engaged in criminal activities. They included traffickers in stolen credit card data, computer hackers for hire, and underground drug-dealing websites.²³⁸

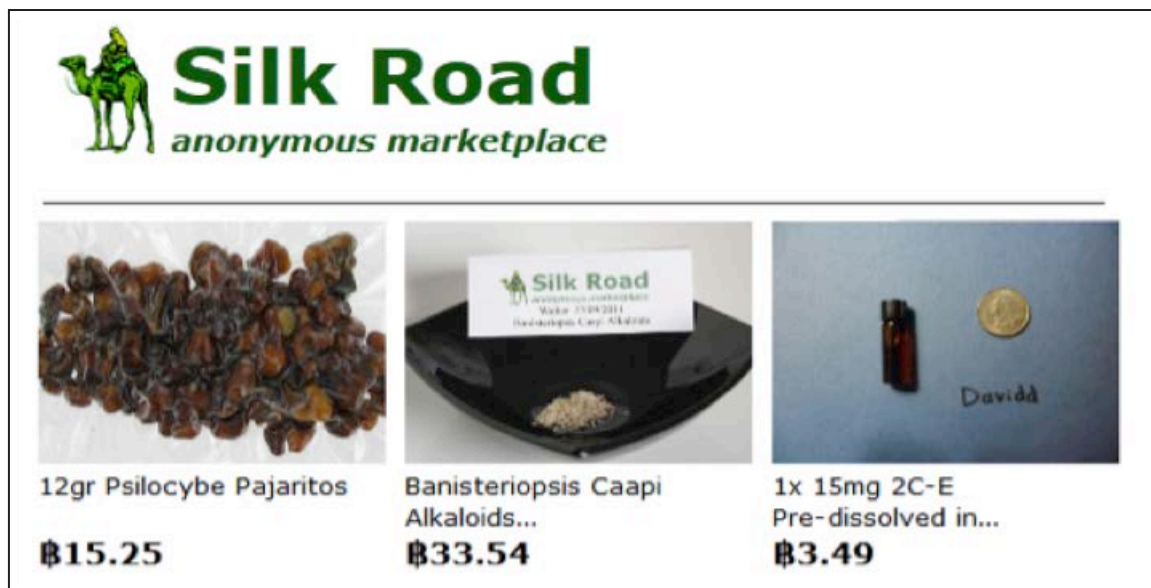
With an estimated one million users worldwide, and more than 200,000 in the United States, Liberty Reserve processed more than 12 million financial transactions annually, with a combined value of more than \$1.4 billion.²³⁹ From 2006 to May 2013, Liberty Reserve is believed to have laundered in excess of \$6 billion in criminal proceeds.²⁴⁰

In May 2013, federal prosecutors in New York charged Liberty Reserve and its founders with operating an unlicensed money transmitting business, and conspiring to commit money laundering.²⁴¹ The principal founder, as well as two other defendants, are pending extradition.²⁴² Another defendant has entered a guilty plea and two others are at large. The site has been shuttered and effectively put out of business.

Bitcoin and Silk Road

Unlike most other virtual currencies, such as e-Gold and Liberty Reserve, Bitcoin is a *decentralized* digital-payments system. In other words, there is no centralized repository or administrator who serves to mediate transactions. Instead, all users install the open-source software on their computing devices, thereby creating a peer-to-peer network through which Bitcoin transactions are conducted and bitcoin “balances” are independently calculated. Significantly, Bitcoin transactions are possible from anywhere in the world there is an Internet connection. They are irreversible once conducted, and have few, if any, fees.

Figure 35
Screenshot of Illicit Drugs For Sale on Silk Road Website



Bitcoin was established in 2009 and its popularity has grown wildly in the past two years. While its use in legitimate commerce is growing, its use in criminal financial transactions was illustrated by its adoption as the exclusive payment mechanism for Silk Road. Often referred to as the “eBay for drugs,” Silk Road was an anonymous online market that sold everything from marijuana to prescription drugs to weapons (Figure 35). According to the FBI, it was “the most sophisticated and extensive criminal marketplace on the Internet.”²⁴³ One FBI inventory found 13,000 listings for controlled substances, 159 offerings for “services” (including a tutorial on hacking ATMs), as well as hundreds of offerings of hacked accounts and counterfeit IDs.²⁴⁴ Between February 2011 and July 2013, this “dark market” served more than 100,000 customers and facilitated approximately \$1.2 billion worth of transactions.

Catching Up With Bitcoin

Ever since Bitcoin's emergence in 2009, businesses, government regulators, and criminals have all wondered how best to characterize it. Is it money? A security? Or perhaps it is better understood as a commodity? The answer to this question has significant real-world implications, basically determining what regulations – including disclosure requirements – apply to the entities that use and transmit it.

Under guidance issued by the U.S. Treasury Department's Financial Crimes Enforcement Network (FinCEN), the federal Bank Secrecy Act and its various registration, record-keeping, and reporting requirements can apply to businesses that transmit not only real currency, but also "other value that substitutes for currency," such as Bitcoin. FinCEN guidance from March and December 2013 further clarified the scope of this regulation, explaining that any entity that serves as a digital currency administrator or as an intermediary for digital currency transmission is a money transmitter. Consequently, such entities are subject to FinCEN regulations, including its anti-money laundering compliance protocols and state licensure. Reflecting the significance of these regulations, U.S.-based entities that have attempted to skirt them have been shut down. For example, in May 2013, federal authorities seized a U.S. subsidiary of a leading Japanese-based Bitcoin exchange service, Dwolla, on the ground that it was operating as an unlicensed money transmitter. Despite these actions, hearings held over the last few months by the U.S. Senate and New York's top financial regulator underscore that real concerns remain about the best way to address the money laundering threat posed by Bitcoin.

In California, special state laws that protect against money laundering also have a clear role to play in curbing misuse of Bitcoin. In fact, there is a strong argument that the California Money Transmission Act already applies to businesses that electronically exchange and transmit Bitcoin because Bitcoin is "a medium of exchange." What is certain is that, if transnational criminal organizations turn to Bitcoin to launder their illicit proceeds from the state, regulatory scrutiny will intensify.

Sources: 31 C.F.R. § 1010.100(ff); U.S. Department of the Treasury, Financial Crimes Enforcement Network, *Guidance on the Application of FinCEN's Regulations to Persons Administering, Exchanging, or Using Virtual Currencies* (Mar. 18, 2013), FIN-2013-G001; Seizure Warrant, *In Matter of Seizure of One Dwolla Account Case, No. 13-1162* (D. Md. 2013).

In October 2013, the federal government shut down Silk Road, arrested the principal operator – a U.S. citizen living in the Bay Area – and charged him with narcotics trafficking, computer hacking, and money laundering, among other crimes.²⁴⁵ Top sellers and significant users in other locations around the world were also arrested. Most recently, in January 2014, federal authorities arrested a co-founder and chief executive of one of the Internet’s most popular bitcoin-dollar exchangers for conspiring to sell and launder over \$1 million in bitcoins in connection with Silk Road drug purchases.²⁴⁶ Nonetheless, attempts to resurrect Silk Road continue.

Conclusion

As information systems and networks, consumer bank accounts, and digital content have all become vulnerable to high-tech exploitation, organized crime has evolved to seize new profit opportunities. In this new world, identification credentials and intellectual property have become the primary targets for illicit acquisition and distribution, criminals can purchase data and highly specialized skills from each other on the “dark market,” and cutting-edge technologies enable transnational criminal organizations to evade detection and protect their illicit gains from law enforcement authorities in ways that are still not adequately understood.



Recommendations

Trafficking

Recommendation

The Legislature should amend California law to target the leaders of transnational criminal organizations operating in California.

California has no statutory authority that specifically targets or punishes supervisors, managers or financiers who conduct operations locally on behalf of transnational criminal organizations. Currently, high-level prison or street gang members who supervise, manage, or finance their local gang associates in the distribution and retail sales of drugs are treated as “co-conspirators” or “aiders and abettors” of their underlings and foot soldiers. However, other states and the federal government have enacted laws that increase the punishment and seize the working capital of the prison or street gang leaders who work on behalf of drug trafficking organizations.

For example, Congress enacted the Continuing Criminal Enterprise Act (Criminal Enterprise Act)²⁴⁷ in an effort to combat drug cartels by directly attacking their leadership.²⁴⁸ Under the Criminal Enterprise Act (21 U.S.C. §848), a director of an illegal criminal organization may be sentenced to prison for not less than twenty years to life without the possibility of parole.²⁴⁹ In addition to lengthy incarceration, the Criminal Enterprise Act authorizes the seizure of the director or manager’s ill-gotten monetary gains,²⁵⁰ thus depriving the criminal organization of its working capital. And in statehouses, Maryland and New Jersey passed laws similar to the Criminal Enterprise Act to increase the criminal liability of large-scale narcotics operators beyond that of their “employees.”²⁵¹

To more effectively combat transnational criminal organizations and their criminal gang associates, the California Legislature should broaden existing law to increase criminal penalties for organizers, supervisors, managers or financiers of criminal enterprises. This could be accomplished by amending current law to include a Criminal Enterprise Act and to increase potential sentences and fines. By doing so, law enforcement can more effectively target the “shot-callers” of these criminal organizations and destabilize their operations.

Recommendation

Federal, state, and local law enforcement should use California’s State Threat Assessment System as a central hub for sharing information about transnational crime.

California lacks a unified system for collecting, analyzing, and disseminating information about transnational organized crime. Police departments and task forces regularly maintain data related to the activities of known organized crime figures, but such data is rarely shared outside that immediate county or affected region. California’s State Threat Assessment System (STAS) is uniquely positioned to act as the central hub for California’s transnational crime information-sharing needs. The STAS already provides critical tactical and strategic intelligence about trends and emerging patterns relating to criminal activity statewide and ensures first responders and policymakers are provided with timely, accurate, and relevant situation awareness about transnational criminal tactics and techniques. In coordination with the Attorney General’s Office, California’s tribal, local, state, and federal law enforcement agencies should partner with the STAS to develop a platform to share information about transnational criminal organizations across the state.

Recommendation

Federal, state, and local authorities should establish a unified maritime task force and associated radar network to counter maritime smuggling operations along California’s coastline.

Various local, state, and federal law enforcement agencies coordinate their activities to interdict maritime smuggling operations along California’s coast. These partnerships are often regional in nature and are typically established on an as-needed basis. California needs a new multi-jurisdictional Maritime Task Force – that leverages expertise at the federal, state and local levels – to combat the threat along its coastline, especially from *panga* vessel smuggling, and to coordinate strategy between affected counties. In addition to the creation of the Maritime Task Force, California should work with federal agencies to implement a network of high-intensity radar stations, sonar buoys, or other appropriate and effective technologies strategically located along the coast, like the large radar receiver recently placed at Carlsbad’s Ponto Beach by federal officials, to better detect maritime threats and coordinate law enforcement responses.

Recommendation

The Legislature and Governor should fund five additional Special Operations Units across California.

Transnational crime involves an increasingly decentralized array of international and domestic criminal actors conducting a range of trafficking, financial, and high-tech crimes. The sophisticated nature of these groups and their criminal activities requires an equally sophisticated and coordinated law enforcement response.

The multi-million dollar budget cuts in 2011 to the California Department of Justice's Bureau of Narcotics Enforcement resulted in cutbacks to numerous task forces and special operations units ("SOUs") across the state focused on drug-trafficking organizations and violent gangs. Despite these cuts, the one remaining SOU, operating out of Fresno, has been successful in combatting cartel and gang activity in the Central Valley. For example, in June 2011, the Fresno SOU completed a six-month investigation involving high ranking members of the Nuestra Familia prison gang and various Norteño street gangs that were selling cartel-supplied drugs in Merced and Madera counties.²⁵² The investigation led to the arrest of 101 suspects and the seizure of 27 weapons and \$6.6 million in U.S. currency. Building off this crackdown, the Fresno unit opened 23 additional investigations and closed 14 of them in 2012 and 2013. During these investigations, agents debriefed informants and cooperators and learned that Nuestra Familia was working with Mexican drug cartels, including La Familia Michoacana and the New Milenio Cartel (an off-shoot of Sinaloa), to distribute drugs in the Central Valley, provide protection on the street and in prison, and even commit fire bombings and murders.²⁵³

Given the success of the Fresno SOU, California would benefit greatly from adding a SOU in each of the Division of Law Enforcement's regional offices in Sacramento, San Francisco, Riverside, Los Angeles, and San Diego. With a relatively modest total budget of \$7.5 million, these five new teams would help local and federal authorities build cases against the most dangerous transnational criminal organizations operating in California.

Recommendation

The federal government should continue providing critical funding to support state and local law enforcement agencies in investigating and dismantling trafficking organizations.

In California, methamphetamine trafficking has reached staggering levels. The overwhelming majority of the foreign supply of methamphetamine flows through California's port-of-entry border in San Diego. Amongst the U.S. states that share a border with Mexico, methamphetamine seizures in California dwarf the seizures of our sister states by a factor of five.

Based on the advocacy of the California Attorney General's Office and other state and national law enforcement leaders, Congress appropriated \$7.5 million in January 2014 for state law enforcement grants to be administered by the U.S. Department of Justice's Community Oriented Policing Services (COPS) Office to target methamphetamine production and trafficking. These funds will help state law enforcement agencies directly combat one of the most lucrative and dangerous activities perpetrated today by transnational criminal organizations. In California, which suffers disproportionately from foreign- and domestic-refined methamphetamine trafficking by drug cartels, grant funds will support close collaboration between the California Department of Justice's Division of Law Enforcement and local agencies in investigating and dismantling the organizations behind the methamphetamine epidemic in the hardest-hit and underserved communities. But, sustained funding is crucial to law enforcement's ability to make a lasting impact against methamphetamine trafficking. Congress is preparing to consider appropriations for Fiscal Year 2015, and it should continue to fund at or above current levels the resources for this critical federal methamphetamine grant program.

Of equal importance is the restoration of federal funds for other task forces focused on combatting transnational criminal organizations. For several years, federal funding through the Byrne Justice Assistance Grant Program ("Byrne JAG") has enabled the California Department of Justice to lead task forces across the state composed of federal, state, and local law enforcement. In California, the Board of State and Community Corrections administers the distribution of Byrne JAG funding. For California's 2013-2014 Fiscal Year, the Board awarded the Department of Justice \$2.1 million, which helped support 17 joint state-local task forces. However, this represents a 46 percent reduction from the \$3.9 million in funding awarded to the Department of Justice in Fiscal Year 2009-2010. Because of the critical role played by these highly trained joint state-local task forces in responding to drug trafficking activities, the Board should fully restore funding for these task forces at their 2009-2010 level.

Recommendation

Federal, state, and local law enforcement agencies should increase operational coordination in combatting transnational criminal organizations.

Given the international scope of trafficking networks, local, state and federal law enforcement agencies in California must coordinate to combat major transnational criminal organizations such as the Sinaloa cartel. This coordination should be focused on operations and capacity building.

Operational coordination allows law enforcement agencies to better utilize limited resources and leverage prosecutorial authority under state and federal law. Potential

projects could include: (1) improvements to intelligence exchange and information sharing involving state task forces and federally-sponsored HIDTA teams; (2) partnerships between state law enforcement officials and the National Park Service and U.S. Forest Service to combat marijuana cultivation on public land; and (3) coordination between state and federal public health and corrections officials to reduce demand for drugs trafficked by transnational criminal organizations.

In addition to operational coordination, capacity building is essential to ensure that expertise is developed to combat transnational criminal organizations. Thus, state officials should support existing federal government programs designed to enhance Mexico's capacity to combat transnational crime. The foundation for this cooperation was laid in August 2013 with the signing of a Memorandum of Understanding between the California Department of Justice and the U.S. Department of State's Bureau of International Narcotics and Law Enforcement Affairs. This agreement provides the framework for cooperation between California and the State Department on training and advising foreign legal personnel, and on assisting judicial reform and police training initiatives in other countries.

High-Tech Crime

Recommendation

State and local authorities should develop public-private partnerships to leverage technology against transnational crime.

Because it is so often targeted by transnational criminal schemes, the private sector is usually the best source of information about high-tech threats. Additionally, in the realm of technology, the private sector is often in a better position than government to develop tools and techniques to combat criminal activity, especially new and emerging schemes used by transnational criminal organizations. Law enforcement should find ways to take advantage of the resources available in the private sector to develop new and innovative ways of countering ever-changing criminal threats and tactics.

Recommendation

Business should adopt industry best practices designed to protect against cybercrime.

Lax cybersecurity practices, or the lack of any protections whatsoever, allow far too many breaches of computer networks and databases to happen in California, resulting in billions of dollars in economic losses. To help guide businesses and other entities throughout the state, the California Department of Justice earlier this year released *Cybersecurity in the Golden State* (<http://oag.ca.gov/cybersecurity>), a report exploring the serious cyber-threats facing business and offering them practical guidance on how to minimize cyber

vulnerabilities. All entities, public and private, doing business in California should assume they are a target and consider and adopt the industry best practices identified in that report.

Money Laundering

Recommendation

The Legislature should amend California law to enable prosecutors to temporarily freeze the assets of transnational criminal organizations and their gang associates before the filing of an indictment.

There is currently no provision in California law for the seizure of criminal proceeds and assets to prevent their dissipation prior to the filing of a criminal case or, in drug cases, prior to the filing of a civil asset forfeiture petition.²⁵⁴ California law should be modified to allow for pre-indictment freezing of a transnational criminal organization's illicit proceeds or property to prevent their dissipation or disbursement. The ease with which money laundered in California is returned to Mexico via electronic or physical transportation often outpaces the ability of prosecutors to commence criminal proceedings to freeze transnational criminal organization assets.

Unlike California law, federal law authorizes a pre-indictment seizure of assets and property with or without prior notice.²⁵⁵ The prosecution can request a temporary restraining order without notice if it can establish probable cause that, upon conviction, the property will be subject to forfeiture, and that notice will jeopardize the availability of the property for future forfeiture.²⁵⁶ Alternatively, a federal prosecutor can request a noticed hearing where he or she must demonstrate that there is a substantial probability that the government will prevail on the issue of forfeiture, failure to allow seizure will result in the property being destroyed or removed from the jurisdiction, and the need to preserve the seized property outweighs the hardship on the opposing party.²⁵⁷

California prosecutors should be given equal authority to preserve assets and property prior to filing criminal cases. This could be accomplished by amending existing law by expanding the class of transnational "profiteering" activities subject to seizure. Preservation of such assets would, for example, assist in the recovery of the costs of disposing of toxic waste from, and cleaning up of sites damaged by, clandestine methamphetamine conversion labs. Lacking this authority, a transnational criminal organization's assets can quickly be removed from California prior to the commencement of formal legal proceedings.

Recommendation

The Legislature should strengthen California’s prohibition against financial transaction “structuring.”

Federal law requires financial institutions to report to financial regulators all currency transactions over \$10,000, as well as multiple currency transactions that aggregate over \$10,000 in a single day.²⁵⁸ Federal law makes it a crime to break up or “structure” financial transactions into amounts smaller than \$10,000 for the purpose of avoiding the mandatory reporting requirements.²⁵⁹ Federal law does not require that the structured transactions be intended to hide the fact that money came from criminal activities or to facilitate criminal activities.²⁶⁰ The mere structuring of financial deposits, coupled with notice of the reporting requirements, is sufficient to charge a money launderer with a federal financial crime.

By contrast, California’s laws require state prosecutors to prove a money launderer *intentionally* structured a financial transaction to disguise that the proceeds were derived from a criminal activity or, alternatively, were structured to promote or further criminal activity.²⁶¹ Requiring a prosecutor to establish a defendant’s subjective intent in a structuring case enables transnational criminal organizations to conduct unmonitored transactions and launder their money with a reduced risk of state criminal liability.

California’s anti-structuring statute should be amended so that breaking up financial transactions into smaller amounts for the purpose of avoiding the reporting requirements is, in and of itself, a criminal act.

Recommendation

California prosecutors need advanced training to combat sophisticated transnational money laundering schemes.

Significant budget reductions have curtailed the investigatory and prosecutorial capacities of law enforcement agencies to combat transnational crime. Meanwhile, transnational criminal organizations have employed increasingly sophisticated schemes to launder their illicit profits. These emerging schemes require prosecutors to dissect complex international trade transactions and finance mechanisms in order to demonstrate criminal liability and successfully dismantle criminal organizations and syndicates.

The Department of Justice should leverage existing resources and partnerships to provide advanced training and technical assistance to prosecutors investigating complex money laundering schemes. Such training will expand the pool of trained and experi-

enced prosecutors in the fight against organized crime in California and enhance our ability to disrupt this criminal activity.

Recommendation

State authorities should partner with their Mexican counterparts to share intelligence and disrupt the illicit flow of money across the border.

Emerging money laundering strategies by Mexico-based transnational criminal organizations include the use of non-bank financial institutions such as money transmitters to deposit and transfer illicit funds into the financial system. Unregistered money transmitting businesses, which mask that they are in the business of transferring funds through the international financial system, present a challenge for tracking and prosecuting money laundering transactions.²⁶² For example, financial crime investigators have observed individuals who claim to be agents or employees of licensed money services businesses operating along the California-Mexico border entering California from Mexico with satchels full of bulk cash.²⁶³ The investigators need to have available to them in real time an up-to-date database of registered agents and employees of California-licensed money service businesses and would benefit from having similar information available from money services businesses operating in Mexico.²⁶⁴

Bilateral anti-money laundering initiatives are underway in the U.S. and Mexico. For example, in October 2013, the Financial Crimes Enforcement Network (FinCEN) reached an agreement with Mexico's National Banking and Securities Commission to share information related to their respective responsibilities on fighting money laundering.²⁶⁵ Reportedly, this marks the first time that FinCEN has entered a relationship with a regulator outside the U.S. to share information.²⁶⁶

Given California's pivotal role in cross-border transnational money laundering activities involving Mexico, California financial regulators and law enforcement officials should similarly partner with Mexico's Banking and Securities Commission to share intelligence in a timely manner about the methods, modus operandi, and trends and routes used by criminal organizations operating between California and Mexico and cross-border currency flows. California and Mexico should incorporate the latest technology to collect, analyze, and disseminate critical financial intelligence, including cross-border wire transactions.²⁶⁷



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