

April 2020

By Standard Chartered Bank

## Introduction

Fentanyl, a potent synthetic opioid typically used to treat patients with chronic or severe pain, has become a critical driver of the North American opioid crisis. Abuse of prescription opioids, in combination with the use of illicit opioids such as heroin and synthetics like fentanyl, has grown dramatically over the past two decades. This has created an addiction epidemic and a public health emergency in the United States (US) where opioid overdose deaths have increased almost six-fold since 1999. According to the US Centers for Disease Control and Prevention (CDC), that equated to more than 47,000 Americans dying from opioids in 2017, and over 130 Americans now dying every day from opioid overdoses – a number that continues to rise. In addition to the human toll, the epidemic is estimated to have cost well over \$1 trillion.<sup>1</sup>

The social and economic consequences of this increasingly global crisis are immense. Criminal actors are earning billions of dollars as a result, with much of the proceeds flowing through the financial system. Financial institutions (FIs) therefore have an important role to play in detecting and reporting suspicious activity related to opioid trafficking to safeguard the financial system from future abuse by individuals and organizations fueling the epidemic. This bulletin covers fentanyl trafficking red flags presenting to FIs, case studies and the impact of COVID-19 (Corona Virus) on its supply chain and demand.

## The Rise of Fentanyl

Fentanyl – which per the National Institute on Drug Abuse can be up to 100 times more potent than powerful opioids like heroin and morphine – has surged in popularity since 2013. Over a five-year period, American deaths from synthetic opioids, especially fentanyl, increased more than ten-fold.<sup>2</sup> Fentanyl overdose deaths (which exceeded 31,000 in 2018) have now surpassed the peak annual number of deaths in the US resulting from car crashes, the AIDS epidemic, or gun violence.<sup>3</sup>

Illicit fentanyl, fentanyl analogues, other synthetic opioids, and their immediate precursors, are primarily produced outside the US. The vast majority originates in China and is either sent directly to the US or is trafficked across the northern or southern borders from Canada or Mexico. Given fentanyl's unique characteristics and use patterns – relatively cheap, stable, and easy production; low distribution cost; difficulty to detect; and high potency and profit margins – it is a lucrative, relatively low-risk drug for criminal organizations to deal in. These fentanyl-specific characteristics and resulting risks also create a set of unique anti-money laundering (AML) challenges.

## A Global Epidemic

Though previously understood largely as a US problem, the opioid crisis is increasingly affecting communities worldwide, creating a truly global epidemic. A 2019 United Nations (UN) Office on Drugs and Crime report estimates that opioids were responsible for two-thirds of all global drug deaths in 2017, killing over 385,000 in one year alone.<sup>4</sup> Another synthetic opioid, tramadol, is the cause of a deepening opioid crisis spreading across Africa as well as parts of Asia and the Middle East. Opioid use, and deaths, have increased exponentially in most of the world.

## Addressing the Threat

- To combat the crisis, we have partnered with representatives from US law enforcement agencies and other FIs to identify intelligence sharing opportunities and conduct analysis on drug trafficking and money laundering networks associated with the production and/or distribution of fentanyl.
- We are actively training internal staff and raising awareness across the enterprise on fentanyl and other opioid trafficking red flags and risk indicators.

## Fentanyl-Linked AML Typologies & Red Flags

- **High Risk Industries** – Clients who advertise medications with fentanyl precursors
- **Shell/Front Companies** – Use of shell companies, especially those based in Hong Kong, and front companies disguised as global food additive manufacturers (a range of front industries have been used)
- **False Trade Documents** – Bulk imports of acetyl fentanyl or other precursor chemicals from China as “toys” or “children’s clothes”
- **Flow of Funds** – US remitters sending money to China for no apparent purpose; multiple clients wiring funds to the same recipients in China; multiple US remitters sending funds to the same recipient in China or Mexico
- **Remittance References** – Use of code words in a payment’s remittance reference, including precursor chemical names or street names for fentanyl or fentanyl-laced heroin, such as Apache, China Girl, China White, Dance Fever, Friend, Goodfella, Jackpot, Murder 8, TNT, Tango, and Cash
- **Structuring** – Multiple transactions just below the US currency transaction reporting threshold
- **Volume of Funds** – Volume of transfer activity inconsistent with the remitter’s stated purpose
- **Phone Numbers/Addresses** – A money transfer beneficiary listing a phone number or email address associated with a pharmaceutical or medical company; seemingly unrelated beneficiaries sharing the same phone numbers or email addresses
- **Cash Transactions** – Unusual cash deposits or suspicious physical condition of cash
- **Payment Platforms/ Methods** – Network operatives often use money service businesses to receive funds; use of digital currencies and anonymous payment vehicles such as prepaid cards
- **Communications Methods** – Network operatives generally communicate via private messaging platforms such as Wickr and WhatsApp, often using code names; may also utilize VPNs and Tor.

1. <https://altarum.org/news/economic-toll-opioid-crisis-us-exceeded-1-trillion-2001>  
2. [https://www.rand.org/pubs/research\\_reports/RR3116.html](https://www.rand.org/pubs/research_reports/RR3116.html)  
3. <https://www.nytimes.com/interactive/2018/11/29/upshot/fentanyl-drug-overdose-deaths.html>  
4. [https://wdr.unodc.org/wdr2019/prelaunch/WDR19\\_Booklet\\_2\\_DRUG\\_DEMAND.pdf](https://wdr.unodc.org/wdr2019/prelaunch/WDR19_Booklet_2_DRUG_DEMAND.pdf)

# ILLICIT FINANCIAL SCHEMES RELATED TO FENTANYL TRAFFICKING & THE OPIOID CRISIS

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## The World's Largest Fentanyl Seizure

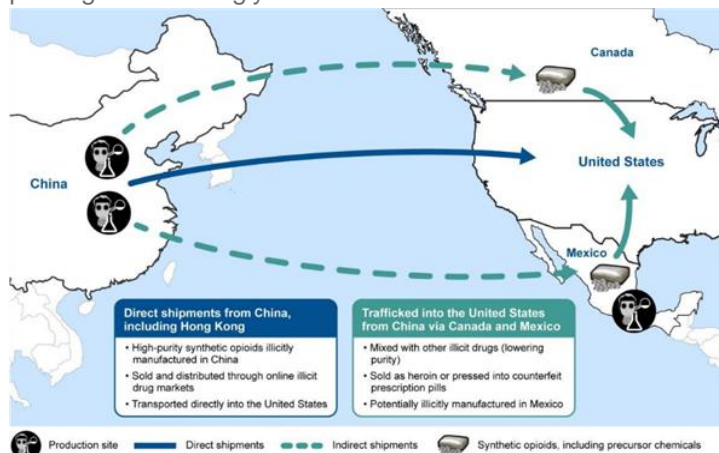
In August 2019, Mexican authorities seized approximately 25 tons of fentanyl in the Mexican port of Lázaro Cárdenas, held in a mismarked container from a Danish ship arriving from Shanghai, China. According to news reports, the Mexican Navy intercepted the unloaded 40-foot container, which was marked as containing 23,000 kilograms of inorganic calcium chloride. The container originated from Shanghai and was bound for the Sinaloa Cartel's home base in Culiacan, 300 miles north of the port. The haul, which was the largest seizure of fentanyl to date, is reported to have been enough to kill 115 million people.

## Fentanyl Trafficking Routes

In August 2019, the US Financial Crimes Enforcement Network (FinCEN) published a Public Advisory (FIN-2019-A006), which highlighted that fentanyl trafficking in the US generally follows one of two pathways:

### 1. Direct Purchase from China by US Individuals

**Shipping/Logistics:** Illicit fentanyl is sent directly to the US via air cargo, international mail, and express consignment in high-purity, low-weight shipments destined for criminal groups or individuals in the US. Most originate in China with suppliers who use international mail consolidators to mask the origin of the shipments. US-based traffickers utilize invalid addresses, relying on the large volume of e-commerce parcels from China as a means of concealment. Often individuals' personal consumption purchases, however, are shipped using the US Postal Service and utilize consumers' true addresses. These shipments are often disguised as alternate goods like essential oils and packaged accordingly.



Source: U.S. Government Accountability Office, Illicit Opioids: While Greater Attention Given to Combating Synthetic Opioids, Agencies Need to Better Assess Their Efforts, March 10, 2018.

**Payments:** Transactions related to the sale of fentanyl often involve money transfers to individuals, shell companies, or front companies in China operating in the chemical manufacturing industry. Payments are made through Money Services Bureaus (MSBs), online payment processors, or bank transfers to individuals located in China or other foreign countries. Drug traffickers and consumers increasingly use Cleartnet and Darknet e-commerce markets, paired with online payment systems and virtual currencies, to further anonymize fentanyl purchase and distribution. While bulk dealers typically remit higher dollar value transactions (over \$10,000 USD), payments made for personal consumption are generally less than \$1,000 USD.

### 2. Cross-Border Trafficking by Mexican Transnational Criminal Organizations (TCOs)

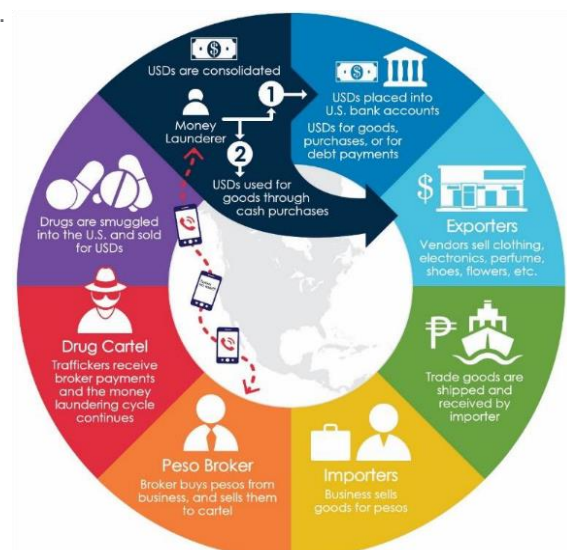
**Shipping/Logistics:** Fentanyl is largely supplied by countries with large pharmaceutical industries like China. Mexican TCOs receive the product (fentanyl or precursor chemicals) often through maritime shipping, which in many cases has been sent through multiple freight forwarders in order to obscure the point of origin. The final drug product

(fentanyl or fentanyl combined with other drugs) is then transported to the US using traditional trafficking routes and existing drug distribution networks. The majority of the flow is through personally operated vehicles entering the US at legal ports of entry, often across the Southwest Border (SWB), though body carriers will also move small quantities of fentanyl and other synthetic opioids directly across the border.

The Jalisco New Generation and Sinaloa cartels are reported to be the main suppliers of fentanyl in the US. Mexico's Criminal Investigation Agency (AIC) uncovered 13 fentanyl trafficking routes departing from central and western Mexico, often arriving in the ports of Manzanillo, Colima, Lazaro Cardenas, and Michoacán from China, Hong Kong, and Singapore. Notably, most seizures happen in southern California as fentanyl is often shipped to Tijuana and then trafficked into the US through California.

While the majority of the fentanyl supply is arriving directly from China or is trafficked through Mexico, some portion is trafficked across the Canadian border. Shipments coming in through Canada consist of fentanyl itself or precursor chemicals sent from China to Vancouver, which are then mailed or smuggled, respectively, across the US's northern border.

**Payments:** Mexican TCOs arrange the consolidation, placement, and movement of illicit proceeds derived from fentanyl sales in the US. Transactions typically involve structured cash deposits, money transfers, and wire transfers for the ultimate credit of accounts in the US SWB region and Mexico. Drug trafficking networks often use shell companies to disguise the illicit drug proceeds as legitimate business transactions, and US-based individuals may use their accounts to funnel funds between domestic and international locations. Common money laundering methods used by Mexican TCOs include: (1) bulk cash smuggling, (2) traditional trade-based money laundering (TBML) schemes, (3) structured MSB money transfers, and (4) funnel account activity.



Source: FinCEN, 21st Century Drug Trafficking: "Money Advisory" on Fentanyl and Other Synthetic Opioids (Tab D), August 21, 2019.



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## Evolving Drug Networks & Markets

Drug trafficking networks have been evolving over the past decades, and traditional cartel models are largely becoming less hierarchical. In many cases, emerging enterprises that are smaller and flatter, with more distributed networks, have proven to be more effective at supplying fentanyl and other synthetic opioids. The use of consumer to consumer drug distribution models has also increased with advancing technology and amplified internet access. Fentanyl is generally marketed and sold via digital private sector platforms, including social media and e-commerce sites as well as online forums, enabling criminals to reach a broad audience. The growth of Darknet markets in particular, where peers can buy and sell illicit substances with anonymity and ease, has been critical to the fentanyl and synthetic opioid boom.

### Case Study: Laundering Fentanyl Proceeds Using TBML

In a scheme uncovered by US authorities in 2018, the Sinaloa Cartel laundered illicit fentanyl proceeds by creating fictitious US-based front companies supposedly involved in the food industry. The cartel established corporate entities, brought fentanyl (along with cocaine and heroin) into the US in pallets marked as containing sea cucumbers, and laundered drug proceeds through accounts for the fake seafood companies set up at southern California banks. These accounts were used to receive cash deposits (over \$19 million USD) made at drug sale locations in Northeastern US cities. The use of sea cucumbers as a cover was an interesting choice as the fake invoices produced by the cartel conspirators in California – which made it look as though Western New Yorkers were buying sea cucumbers at astounding rates and quantities despite the fact there is no real demand for the product in Buffalo or the surrounding areas – was a key tip-off in the case.

## What's Next? Potentially Emerging Fentanyl Sources

In May 2019, China announced a ban on fentanyl analogues (drugs that are structurally-related to fentanyl), prompting speculation that manufacturers in other countries would step in to supply the North American demand for opioids. India, which has loosened its strict narcotics laws and has a massive pharmaceutical industry (globally the country is the largest supplier of generic medicines), has been highlighted as a possible emerging source of fentanyl. Notably, numerous arrests for illicit manufacture and exportation of fentanyl were reported in India in 2018. Manufacturers in the Netherlands and Bangladesh are also believed to have the potential to become increasingly involved in supplying illicit synthetic opioids and their precursors.

While important to take note of potentially-emerging fentanyl sources, China's recent ban does not necessarily signal an upcoming halt in fentanyl or other synthetic opioids flowing from China. Deficient regulatory capacity in China is a major concern, and significantly, the authorized manufacture and handling of fentanyl itself remains legal in China (for medical purposes). The ban also does not cover other synthetic opioids structurally different from fentanyl.

## COVID-19 (Corona Virus) Impact

The COVID-19 Corona Virus has disrupted fentanyl supply chains at both the wholesale and retail level. The Chinese pre-cursor chemicals, that Mexican cartels rely on to produce fentanyl for trafficking into the US and elsewhere, are in short supply. Additionally, large amounts of mail-order components for fentanyl production can be traced to a company in Wuhan that was shut down after the COVID-19 outbreak earlier this year. As Mexican cartels are unable to source supplies from China, they are turning to production in house. According to an analyst at the Center for Advanced Defense Studies, "advertised prices across China for precursors of fentanyl, and cutting agents have risen between 25% and 400%.<sup>5</sup> So even as drug precursor plants in China are slowly reopening after the worst of the coronavirus crisis there, some cartels have been taking steps to decrease their reliance on overseas suppliers by enlisting scientists to make their own precursor chemicals."

As the China to US and Mexico fentanyl shipping routes dry up, the direct purchase of fentanyl by individuals could shift from China to Mexico, and direct payments to individuals or companies located in China may drop off. Money laundering techniques used by cartels for the movement of illicit proceeds from the sale of fentanyl, however, are not likely to change, at least in the short term.

Demand for recreational use has also decreased due to increased prices and social distancing measures keeping potential buyers at home. The US Drug Enforcement Administration (DEA) reports a decrease in money laundering and online drug sales on the dark web.

The need for legitimate medicinal use of fentanyl as a painkiller to treat COVID-19 patients has resulted in a recent drastic increase in demand for the drug in hospitals. With China as the world's largest manufacturer of fentanyl for both the licit and illicit markets, it is possible the commingling of legally and illegally sourced fentanyl could rise.

Narcotics trafficking, nonetheless, continues to prevail through COVID-19 as \$30 million worth of street drugs were seized in a new smuggling tunnel connecting a warehouse in Tijuana to southern San Diego in March 2020. The bust, however, only contained 2 pounds of fentanyl - much lower than usual shipments - signaling a reduction in supply likely due to impacts from COVID-19.

## Here for Good

SC is committed to protecting the financial system from abuse by drug trafficking and money laundering networks perpetuating the opioid epidemic. We believe in a proactive approach to fighting financial crime, and in addition to undertaking timely, thorough investigations and reporting suspicious activity, we are focused on building strong partnerships across the industry. We encourage our peers to champion collaboration and to work together and with law enforcement to share intelligence and best practices that can help disrupt the criminals fueling this global crises.

5. <https://apnews.com/4f0a4ca93cc2fee94d386efb13db31a0>